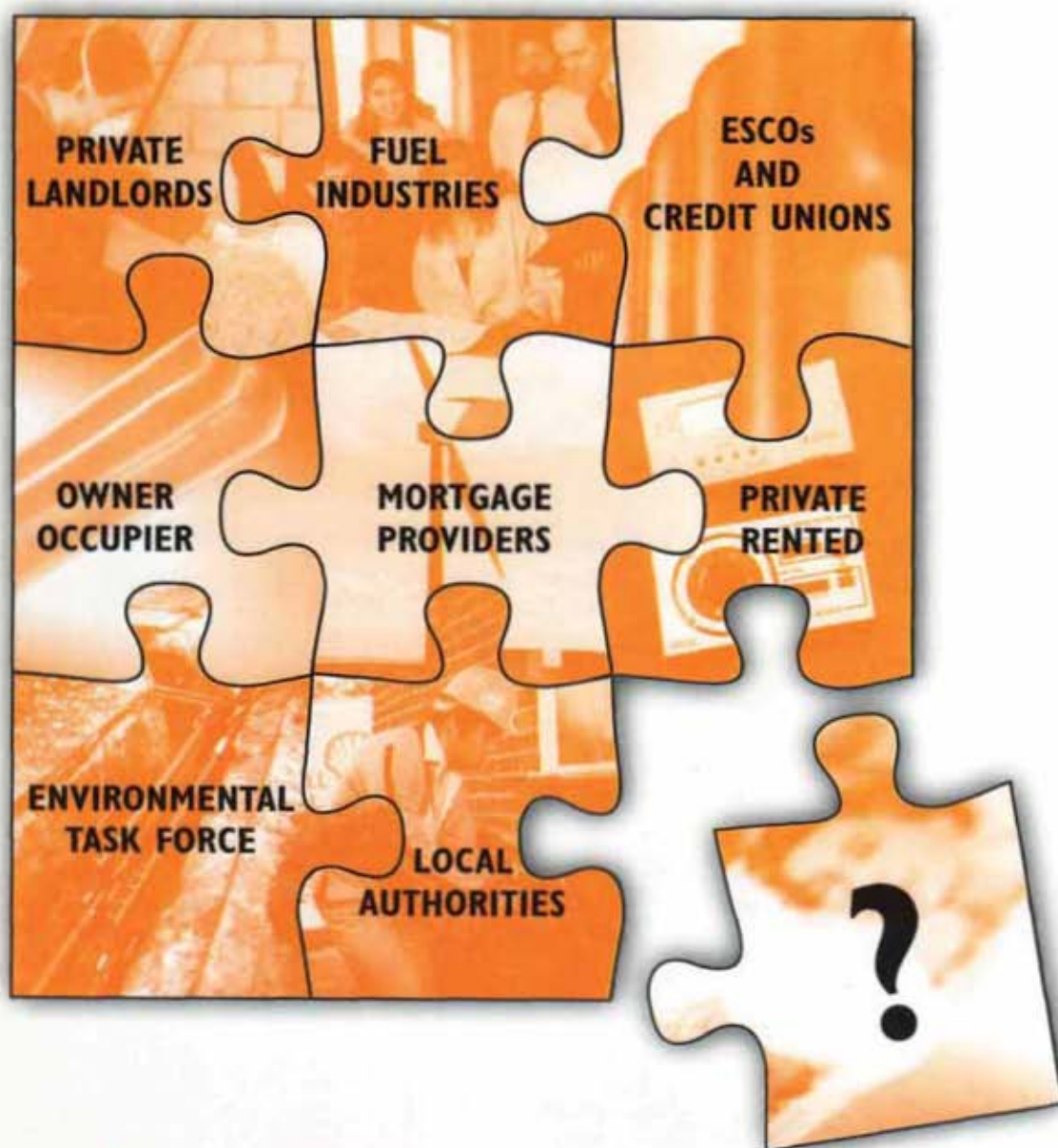


## **Unlocking the potential –** financing energy efficiency in private housing



ENERGY EFFICIENCY

ARCHIVED DOCUMENT

BEST PRACTICE  
PROGRAMME

#### **PREFACE AND ACKNOWLEDGEMENTS**

The subject of this General Information Report is complex. BRECSU has developed the document on behalf of the Department of the Environment, Transport and the Regions with the help, in the early stages, of Bristol Energy Centre, and the expertise of the advisory group. The guidance offered here, while intended to be helpful, deals with complex areas of law which, ultimately, only the courts can interpret authoritatively. It is for local authorities to reach their own interpretation of relevant legislation, with the assistance of their legal advisers as necessary and subject to auditor scrutiny.

Many of the issues discussed in this Report are specific to legislation and funding systems in England. The system for Wales is different in some respects, and the systems for Northern Ireland and Scotland are very different. Further

information on the different funding systems can be obtained by contacting the Welsh and Scottish Offices and the Department of the Environment (Northern Ireland) (DoE (NI)).

Housing C Division  
The Welsh Office, Cathays Park, Cardiff CF1 3NQ  
Tel: 01222 825219

Housing Division 1  
The Scottish Office, Victoria Quay  
Edinburgh EH6 6QQ  
Tel: 0131 244 5566

Housing Division  
Department of the Environment (Northern Ireland), Clarence Court, 10-18 Adelaide Street  
Belfast BT2 8GB  
Tel: 01232 540784

#### **ADVISORY GROUP**

We are grateful to the members of the advisory group who contributed to the preparation of this Report; the group was made up of the following members:

|                       |  |                         |  |
|-----------------------|--|-------------------------|--|
| <i>Mark Frankel</i>   | DETR, Local Government Capital Finance | <i>Malcolm Lynch</i>    | Malcolm Lynch Solicitors (International Common Ownership Movement) |
| <i>Nick Ratcliffe</i> | DETR, Local Authority Housing Finance  | <i>Paul Randon</i>      | The Co-operative Bank plc  |
| <i>Nigel Foster</i>   | DETR, EEWD, Energy Services Team       | <i>Leslie Mugeridge</i> | London Borough of Tower Hamlets                                    |
| <i>Mike Rundle</i>    | AHS Emstar                             | <i>Steve Fitzgerald</i> | Powerline Energy Services Ltd                                      |
| <i>Peter Rousseau</i> | The 4Ps                                |                         |  |



## CONTENTS

|          |  |           |
|----------|--|-----------|
| <b>1</b> | <b>INTRODUCTION</b>  | <b>1</b>  |
|          | About this Report  | 1         |
|          | The Home Energy Conservation Act 1995 and Local Agenda 21              | 1         |
|          | How to use this Report   | 2         |
| <b>2</b> | <b>OVERVIEW</b>  | <b>3</b>  |
|          | Role of local authorities  | 3         |
|          | Existing sources of finance  | 3         |
|          | Facilitating investment  | 4         |
|          | Facilitating investment by private landlords                           | 6         |
|          | Matrix of mechanisms for owner-occupier housing                        | 7         |
|          | Matrix of mechanisms for the private-rented sector                     | 8         |
| <b>3</b> | <b>LOANS FOR FINANCING ENERGY EFFICIENCY IN PRIVATE SECTOR HOUSING</b> | <b>9</b>  |
| <b>4</b> | <b>LOAN FINANCE – CREDIT UNIONS</b>                                    | <b>11</b> |
| <b>5</b> | <b>ENERGY SERVICES COMPANIES</b>                                       | <b>13</b> |
| <b>6</b> | <b>ENERGY EFFICIENCY STANDARDS OF PERFORMANCE</b>                      | <b>16</b> |
| <b>7</b> | <b>BULK DISCOUNTS AND CASHBACKS</b>                                    | <b>18</b> |
| <b>8</b> | <b>LOOKING TO THE FUTURE</b>   | <b>20</b> |
| <b>9</b> | <b>CASE STUDIES</b>  | <b>23</b> |
| 1        | The Energy Club  | 23        |
| 2        | Grants and Discount Scheme – London Borough of Tower Hamlets           | 24        |
| 3        | District Heating Scheme – EnviroEnergy Ltd (Nottingham)                | 26        |
| 4        | Quality Renting Scheme – London Borough of Tower Hamlets               | 27        |
| 5        | Improving energy efficiency in rented student accommodation            | 28        |
| 6        | Home energy audits, extended mortgages and home improvement loans      | 28        |
| 7        | Generator Scheme – North Cornwall District Council                     | 29        |
| 8        | Energy Sense – Leicester City Council                                  | 31        |
| 9        | Coventry Energy Shop   | 32        |
| 10       | Redditch Borough Council   | 32        |
| 11       | LEEP – credit union loans for CFLs                                     | 34        |
| 12       | Tincknell Fuels Ltd – an existing ESCO                                 | 35        |
| 13       | The Solar Club – a renewable ESCO                                      | 35        |
| 14       | Fridgesavers – national SoP scheme                                     | 36        |
| 15       | SWALEC – discounted automatic charge controls                          | 37        |

## CONTENTS

---

|           |  |           |
|-----------|--|-----------|
| 16        | Energy Efficiency Homes Demonstration Project – Northern Ireland Housing Executive               | 38        |
| 17        | Baywind Energy Co-operative  | 39        |
| 18        | Wise Group – intermediate labour market  | 40        |
| <hr/>     |  |           |
| <b>10</b> | <b>SUMMARY OF RELEVANT LEGISLATION</b>   | <b>41</b> |
| 10.1      | Powers to require improvements to private sector housing stock                                   | 41        |
| 10.2      | Loans and grants to finance energy efficiency  | 41        |
| 10.3      | Providing energy efficiency services and materials to the private sector                         | 43        |
| 10.4      | The role of a local authority in a company   | 45        |
| 10.5      | Supplying heat and electricity (Local Government (Miscellaneous Provisions) Act 1976 section 11) | 48        |
| <hr/>     |  |           |
|           | <b>REFERENCES</b>  | <b>48</b> |
| <hr/>     |  |           |
|           | <b>APPENDIX 1 GLOSSARY OF TERMS AND ABBREVIATIONS</b>  | <b>49</b> |
| <hr/>     |  |           |
|           | <b>APPENDIX 2 USEFUL CONTACTS</b>  | <b>50</b> |
| <hr/>     |  |           |



## 1 INTRODUCTION

**ABOUT THIS REPORT**

This Report has been produced to inform local authority managers of the opportunities available to finance energy efficiency in owner-occupied and rented private properties. It may also be of interest to other organisations concerned with the energy efficiency of the UK's housing stock.

The aim of this Report is to show how various finance mechanisms can be used to fund energy efficiency improvements in housing. The emphasis is placed on innovative methods of financing or facilitating energy efficiency programmes rather than through existing housing or energy-related grants.

For guidance on improving the energy efficiency of social housing see General Information Report 51 (GIR 51) 'Taking stock - private financing of energy efficiency in social housing'. Both Reports should be read in conjunction with Good Practice Guide 82 (GPG 82) 'Energy efficiency in housing - guidance for local authorities'<sup>(1)</sup>.

These publications are produced as part of the Energy Efficiency Best Practice programme managed by BRECSU on behalf of the Department of the Environment, Transport and the Regions (DETR).

Some of the issues discussed in this Report are specific to legislation and regulations in place only in England.

**THE HOME ENERGY CONSERVATION ACT 1995 AND LOCAL AGENDA 21**

The Home Energy Conservation Act (HECA) 1995 places a statutory obligation on local authorities to prepare Energy Conservation Plans to improve the energy efficiency of all domestic housing by some 30% over a 10-15 year period (DOE circular 2/96<sup>(2)</sup>).

Although HECA specifically relates to improving energy efficiency in housing, many local authorities have developed more general strategies to reduce the emission of carbon dioxide (CO<sub>2</sub>) and promote sustainable development through their Local Agenda 21 plans.

*The information provided in this Report can be used for developing programmes and raising awareness of legal implications and potential pitfalls. It is recommended that legal advice be sought where there may be potential problems.*

Throughout this Report the following abbreviations are used to indicate the various mechanisms for implementing energy efficiency measures. The abbreviated form will assist the reader in cross-referencing between the early sections of the Report and the case studies that illustrate the success of the strategy.

|             |                              |
|-------------|------------------------------|
| <b>SL</b>   | - SECURED LOANS              |
| <b>UL</b>   | - UNSECURED LOANS            |
| <b>BD</b>   | - BULK DISCOUNTS             |
| <b>ESCO</b> | - ENERGY SERVICES COMPANY    |
| <b>SoP</b>  | - STANDARDS OF PERFORMANCE   |
| <b>CU</b>   | - CREDIT UNION               |
| <b>C</b>    | - COOPERATIVE                |
| <b>ILM</b>  | - INTERMEDIATE LABOUR MARKET |

*What finance mechanism is appropriate for the measures I want to install?*

**MATRICES**  
pages 7 to 8

*How does that finance mechanism work?*

**FINANCE MECHANISMS**  
pages 9 to 18

*Are there any practical examples of the application of that mechanism?*

**CASE STUDIES**  
pages 23 to 40

*Where can I get further detailed information?*

**REFERENCE SECTION**  
page 48



## INTRODUCTION

Meeting the UK's policy objectives for reductions in CO<sub>2</sub> emissions is a challenge for all local authorities, because most of the energy efficiency improvements will have to take place in private housing, which constitutes the largest proportion of housing in the UK.

Under current legislation the objectives will have to be met without new statutory powers or financial assistance. Thus the local authority will have to become a facilitator or enabler, rather than a provider or financier. This is a new role for many authorities, although the experience gained in developing community participation and other partnership arrangements in Local Agenda 21 initiatives will be of value.

### HOW TO USE THIS REPORT

As part of a HECA strategy, local authorities will wish to identify which programmes to prioritise in order to meet their objectives.

Table 1 contains information on national energy use and CO<sub>2</sub> emissions (expressed as kilotonnes of carbon), and the potential savings from existing cost-effective energy efficiency measures. It gives a clear idea of where local authorities can most usefully target their resources to maximise energy and CO<sub>2</sub> savings.

Although the figures may vary regionally, table 1 illustrates the need to consider the implications of tenure and the type of measure being promoted when drawing up programmes. The table does ignore household income although, as around a third of private sector households are dependent on low incomes, this will also influence the mechanism chosen. It is assumed that 30% of the savings in heating measures are taken in improved comfort.

Chapter 2 includes matrices to assist in identifying the finance mechanism appropriate for financing a particular energy efficiency measure. More detailed information on each finance mechanism can be found in chapters 3 to 7. The case studies in chapter 9 highlight practical examples of the application of these mechanisms, plus some of those illustrated in chapter 8. In practice, programmes may promote more than one measure and use a combination of mechanisms.

Having identified a particular finance mechanism, it may be useful to obtain more detailed information. Chapter 10 provides legal references; and useful contacts and relevant Internet sites are shown in appendix 2. Referenced publications are detailed on page 48.

|   | Owner-occupied<br>(15 720 000)* |                   | Local authority<br>(4 900 000)* |                   | Housing association<br>(1 050 000)* |                   | Private rented<br>(1 651 000)* |                   | All tenures<br>(23 321 000)* |                   |
|---|---------------------------------|-------------------|---------------------------------|-------------------|-------------------------------------|-------------------|--------------------------------|-------------------|------------------------------|-------------------|
|   | Energy<br>PJ                    | Carbon<br>ktonnes | Energy<br>PJ                    | Carbon<br>ktonnes | Energy<br>PJ                        | Carbon<br>ktonnes | Energy<br>PJ                   | Carbon<br>ktonnes | Energy<br>PJ                 | Carbon<br>ktonnes |
| Energy use and carbon emissions of current housing stock                    | 1255.6                          | 27 382            | 290.2                           | 6764              | 64.6                                | 1555              | 112.2                          | 2782              | 1722.5                       | 38 482            |
| <b>Potential annual energy savings from current cost-effective measures</b> |                                 |                   |                                 |                   |                                     |                   |                                |                   |                              |                   |
| Loft insulation   | 14.5                            | 273               | 3.8                             | 82                | 1.0                                 | 27                | 2.4                            | 55                | 21.7                         | 382               |
| Cavity wall insulation  | 69.6                            | 1227              | 30.4                            | 518               | 6.6                                 | 109               | 6.6                            | 109               | 113.2                        | 1991              |
| Double glazing  | 32.8                            | 573               | 15.4                            | 273               | 2.9                                 | 55                | 5.4                            | 109               | 56.5                         | 982               |
| Draughtstripping  | 14.6                            | 273               | 1.9                             | 27                | 0.9                                 | 27                | 1.7                            | 27                | 19.1                         | 327               |
| Hot water tank insulation   | 9.2                             | 164               | 4.1                             | 82                | 0.9                                 | 27                | 1.6                            | 27                | 15.8                         | 273               |
| Improved heating systems  | 99.4                            | 1418              | 15.8                            | 218               | 4.5                                 | 55                | 6.7                            | 109               | 126.4                        | 1827              |
| Low-energy lighting   | 15.7                            | 545               | 4.9                             | 164               | 1.1                                 | 27                | 1.6                            | 55                | 23.3                         | 791               |
| Energy-efficient appliances   | 51.5                            | 1773              | 13.7                            | 464               | 2.7                                 | 82                | 4.1                            | 136               | 72.0                         | 2455              |
| Total savings   | 307.3                           | 6245              | 90.0                            | 1827              | 20.6                                | 409               | 30.1                           | 627               | 448.0                        | 9027              |
| % of current energy use   | 24.5                            | 22.9              | 31.0                            | 27.1              | 31.9                                | 26.5              | 26.8                           | 21.9              | 26.0                         | 23.5              |

Table 1 Annual energy use and CO<sub>2</sub> emissions (expressed as ktonnes of carbon) from current housing stock, and potential savings from existing cost-effective measures (Source: BRE, 1995)

\*Size of total housing stock

ARCHIVED DOCUMENT



## 2 OVERVIEW

**ROLE OF LOCAL AUTHORITIES**

The main source of finance for energy efficiency improvements in private sector housing is the homeowner, although there are funds and grants for local authorities to help finance energy efficiency improvements. However, it is unlikely that the combined existing funding sources can finance measures to the targets set in HECA and elsewhere.

The local authority will, therefore, need to look to other sources of finance to make significant steps towards meeting these targets. This can be achieved through local authorities working on their own or in partnership with external organisations by encouraging, enabling, promoting and coordinating energy efficiency programmes.

**EXISTING SOURCES OF FINANCE**

There are many energy-specific and general housing and regeneration grants. Some are targeted funding mechanisms that require local authorities to submit competitive bids. Although they are often limited in availability, existing sources of funds should be maximised for the benefit of the authority's plans, and they can often be used to leverage extra private finance.

The existing sources of funding can be summarised as follows (see also GPG 8211).

- *Single Regeneration Budget (SRB)* for regeneration works.
- *Rural Challenge and Estates Renewal Challenge Fund.*
- *Capital Receipts Initiative* allows authorities extra supplementary credit approvals based on the amount of housing capital receipts set aside since 1990. It allows investment in private sector renovation and improving energy efficiency in this sector.
- *Home Energy Efficiency Scheme (HEES)* covers all tenures of housing where eligible householders are aged 60 or over, or claiming a means-tested benefit.
- *Home Repair Assistance (formerly Minor Works Grants)* is specifically targeted at the private sector. A number of authorities include insulation works among eligible measures.
- *Homes in Multiple Occupation (HMO) Grants* can be particularly useful for financing improvements in rented properties in the private sector. Local authorities could allocate more of this grant for providing energy efficiency improvements in the private-rented sector. Funding from this grant source could also be used to leverage additional funds from private landlords.
- *Renovation Grants* can be targeted more effectively to provide improvements in the energy efficiency of a building as well as in the general fabric.
- *Cashback/promotional schemes* – schemes over recent years range from cashbacks on cavity wall insulation, condensing boilers and heating controls to promotional offers to sell energy-efficient fridges and fridge-freezers. Many of these have been managed by the Energy Saving Trust (EST).
- *European Commission funding for energy projects* is provided under the SAVE, JOULE, THERMIE or ALTENER programmes. SAVE relates primarily to training and dissemination of projects, while JOULE and THERMIE relate more to research and development and demonstration projects for new energy technologies. ALTENER is concerned with renewable energy initiatives.
- *Funding through other European programmes* (such as regional development or employment/training programmes, eg URBAN) might include an energy component. This avenue has been successfully employed by the Wise Group to set up a number of Intermediate Labour Market Initiatives.

Seeking advice in relation to European programmes is vital, as assembling bids is very time consuming. Advice is available from

## OVERVIEW

government offices and from the European Commission. BRECSU can provide specific advice on European energy programmes (see appendix 2).

- *Environmental Action Fund* will provide voluntary and charitable groups in England with funding for environmental projects, which can include energy efficiency. There is a requirement for applicants to provide matching funding. Local authorities can help local organisations develop innovative schemes and assist them with the application, for example by putting them in contact with potential partners or funders, or by helping them develop a robust application.
- *National Lotteries Charities Board* has a grants programme that periodically changes to focus on different areas of work. In the past there have been a number of opportunities for voluntary organisations or charities to develop applications for funding energy efficiency schemes. Funding through this source has no upper limit and applicants may apply for funding for up to three years. As with the *Environmental Action Fund* local authorities cannot apply for funds, but could provide support for the proposal, or an officer or member could act as a referee for the application.

**FACILITATING INVESTMENT**

Encouraging investment in energy efficiency in the owner-occupied subsector focuses on the householder. In the private-rented sector the main responsibilities for energy efficiency investment rests with the landlord. Other sources – such as financial institutions, suppliers and installers of energy efficiency measures, and community organisations and groups – should also be considered.

**Barriers to investment in energy efficiency**

Barriers preventing or inhibiting householders from implementing energy efficiency measures can be divided into four broad groups. This is backed up by research among callers to the Energy Efficiency Advice Centre (EEAC) network (New Perspectives/BMRB 1996<sup>(3)</sup>).

- *Financial restrictions.* Some people may be unable to afford some of the measures and, particularly low-income households, may be unable to borrow money. Others will believe that their disposable income is more effectively spent on other products and services.

Some people are deterred by what they perceive to be the high costs of energy efficiency improvements. There may also be an unwillingness on the part of many people to invest in something that is not immediately visible, such as cavity wall insulation.

- *Lack of knowledge.* Many people are unaware of the potentially short payback periods of some of the most effective measures. In some circumstances householders will invest in less cost-effective measures, such as double glazing, rather than improvements with a short payback, for example, cavity wall insulation.

Others may be unaware of promotional schemes that offer discounts on the cost of installing an energy efficiency improvement.

Often, even when householders want to install certain measures, they have difficulty finding contractors willing to carry out the work.

- *Lack of motivation.* Many people are still not aware of the economic, environmental, social and health benefits of energy efficiency (see GPG 82).

Research has shown that even the most environmentally aware section of the population could install a number of other measures in their homes to improve energy efficiency.

The majority of people in the UK can easily afford to pay their fuel bills and are not easily motivated by financial reasons.

In other cases householders feel that they do not waste much energy anyway and therefore do not need to make any improvements. Others are too busy, and energy efficiency is low on their list of priorities.



## OVERVIEW

- *Practical.* It may be difficult to install certain measures in some homes, either because of their design or problems when they were built – for example partly blocked cavity walls. Many people also have a perception that installing a measure may be either impractical or too disruptive; for example, having to drain radiators before installing thermostatic radiator valves (TRVs).

Other people are put off by aesthetic considerations. Examples include a reluctance to install compact fluorescent lamps (CFLs) because they may not fit existing lampshades.

Awareness of the benefits of energy efficiency and motivation towards taking positive action will encourage take-up of measures. However, it is important to recognise the different motivations of private landlords who are primarily concerned with generating the maximum income with the minimum investment, making this sector the greatest challenge in terms of encouraging investment in energy efficiency.

In most rental agreements it is the tenant and not the landlord who is responsible for paying fuel bills. The relatively transient and mobile nature of many tenants means that they have little incentive to invest in energy efficiency improvements. Nor will this group benefit from any increase in the value of a property as a result of energy efficiency improvements.

#### Local authorities in a facilitating role

Local authorities are in a key position to enable or to facilitate investment in energy efficiency in the private sector. A local authority can act either:

- unilaterally – for example by setting up an energy advisory service to encourage homeowners to invest in measures, and to provide information on grants and other financial incentives available; or
- in partnership with other organisations such as financial institutions, installers, suppliers and community networks.

Two key objectives for the authority are to:

- promote and encourage investment in energy

efficiency measures through raising awareness and providing information, for example by promoting local, regional or national initiatives. Local authority endorsement of initiatives provides credibility and confidence, which will encourage the take-up of measures by householders

- develop and implement locally based initiatives, for example bulk discount schemes, loan finance, or the development and coordination of a network of partner organisations.

#### CASE STUDY 1 The Energy Club

Page 23

Local authorities can use their status to negotiate discounts from suppliers and installers of energy efficiency measures and appliances, and can also be proactive in setting up other financing mechanisms, such as a credit union or low-interest loan facilities through a third party organisation.

Likewise the authority is ideally placed to promote discount and cash back schemes which are periodically organised under the Energy Efficiency programme coordinated by the EST.

#### CASE STUDY 2 London Borough of Tower Hamlets

Page 24

A small number of local authorities have set up trading companies, some of which provide energy efficiency services – for example, the manufacture and installation of double-glazing units. Other local authorities have set up joint venture companies with partners from the private sector bringing in additional investment and knowledge.

#### CASE STUDY 3 Nottingham City Council

Page 26

Some of these companies were set up primarily to service the local authorities' own housing stocks and only aim to break-even or achieve a small surplus. There may, therefore, be opportunities for such companies to extend their services into the owner-occupied and private-rented sectors and adopt a more commercially sustainable approach to the business.

Local authorities are also ideally placed to initiate, coordinate and support 'mutual guarantee

## OVERVIEW

societies', cooperatives and other forms of trading company set up to channel investment into socially beneficial projects.

#### **FACILITATING INVESTMENT BY PRIVATE LANDLORDS**

Overall, the private rented stock is the least energy efficient of all tenures.

There is nothing to stop private landlords investing in their properties and recovering the investment through the rent. However, the view of many people involved in this area, including the Institute of Rent Officers, is that in areas of high demand for privately rented property, energy-inefficient properties may command as much rent as energy-efficient properties. This would remove any incentive for a landlord to invest in improvements.

Local authorities could make it a condition of receiving council grants that landlords qualify for inclusion on an approved list by providing energy efficiency measures in their properties.

Local authorities could also investigate the opportunities for establishing a capital fund or

loan facility against which private landlords could borrow money for energy efficiency improvements.

Some authorities have developed partnership agreements between themselves and private landlords relating to the standard of accommodation and have developed tenants' charters with landlords.

**CASE STUDY 4** *Page 27*  
*The London Borough of Tower Hamlets*

**CASE STUDY 5** *Page 28*  
*Student accommodation in Shropshire*

Many privately rented properties have inefficient heating appliances, some of which may need replacement to meet safety regulations. In some cases authorities have established a partnership between landlords and suppliers to develop discount schemes for replacement heating systems. Authorities could investigate the opportunity of working with a regional electricity company to develop a replacement scheme for all-electric homes as part of the Energy Efficiency Standards of Performance (SoP) scheme<sup>141</sup>.



## OVERVIEW

## OWNER-OCCUPIER SECTOR

The matrix below is designed to give some guidance on the choice of financing mechanism by which the local authority can help to facilitate energy efficiency

improvements in the owner-occupier sector. Numbers in *italics* refer to case studies that demonstrate the appropriate financing mechanism.

| MATRIX OF MECHANISMS FOR OWNER-OCCUPIER HOUSING |                              |   |                                    |                             |                 |                      |
|---|------------------------------|---|------------------------------------|-----------------------------|-----------------|----------------------|
|   | Insulation                   | Central heating                                   | Low-energy lighting                | Energy-efficient appliances | CHP             | Renewable technology |
| Loan finance – unsecured loans                  | Yes<br><i>2, 7, 8, 9, 16</i> | Yes<br><i>7, 8, 9, 16</i>                         | Yes<br><i>8, 16</i>                | Yes<br><i>8</i>             | N/A             | Yes                  |
| Loan finance – secured loans/mortgages          | Yes<br><i>6</i>              | Yes<br><i>6</i>                                   | N/A                                | N/A                         | N/A             | Possible             |
| Loan finance – credit unions                    | Yes<br><i>10</i>             | Yes – if of smaller value, eg controls            | Yes<br><i>11</i>                   | Yes                         | N/A             | Possible             |
| Energy services company (ESCO)                  | Yes<br><i>1, 16</i>          | Yes<br><i>1, 12, 16</i>                           | Yes<br><i>1, 16</i>                | Yes<br><i>16</i>            | Yes<br><i>3</i> | Yes<br><i>13</i>     |
| SoP scheme                                      | Yes                          | Yes – electrically heated homes only<br><i>15</i> | Yes                                | Yes<br><i>14</i>            | Yes             | N/A                  |
| Bulk discounts/cashbacks                        | Yes<br><i>2, 8, 9, 10</i>    | Yes<br><i>8, 9, 15</i>                            | Yes<br><i>8, 9, 11</i>             | Yes<br><i>8, 14</i>         | N/A             | Yes<br><i>13</i>     |
| Intermediate labour market                      | Yes<br><i>18</i>             | Yes   | Yes – part of insulation programme | N/A                         | N/A             | Possible             |
| Cooperatives                                    | Yes                          | Yes   | N/A                                | Possible                    | Possible        | Yes<br><i>17</i>     |
| Mutual guarantee/social investment societies    | Yes                          | Yes   | N/A                                | Possible                    | Possible        | Yes                  |
| Local Exchange Trading System (LETS)            | Possible                     | Possible  | N/A                                | N/A                         | N/A             | N/A                  |

Numbers identify case studies in chapter 9

## OVERVIEW

## PRIVATE-RENTED SECTOR

The matrix below is designed to give some guidance on the choice of financing mechanism by which the local authority can help to facilitate energy efficiency

improvements in the private-rented sector. Numbers in italics refer to case studies that demonstrate the appropriate financing mechanism.

| MATRIX OF MECHANISMS FOR THE PRIVATE-RENTED SECTOR |                       |                 |                     |                             |                 |                      |
|--|-----------------------|-----------------|---------------------|-----------------------------|-----------------|----------------------|
|  | Insulation            | Central heating | Low-energy lighting | Energy-efficient appliances | CHP             | Renewable technology |
| Loan/grant finance for landlords                   | Yes<br><i>2, 4, 5</i> | Yes<br><i>5</i> | N/A                 | Yes                         | Possible        | Possible             |
| Loan finance for tenants                           | N/A                   | N/A             | Yes                 | Yes                         | N/A             | N/A                  |
| Energy services company (ESCO)                     | Yes                   | Yes             | Yes                 | Yes                         | Yes<br><i>3</i> | Possible             |
| Credit union                                       | Yes<br><i>10</i>      | N/A             | Yes<br><i>11</i>    | Yes                         | N/A             | N/A                  |
| Bulk discount/cashbacks                            | Yes<br><i>2, 4</i>    | Yes<br><i>4</i> | Yes<br><i>11</i>    | Yes<br><i>14</i>            | N/A             | Possible             |
| SoP scheme   | Yes                   | Yes<br><i>5</i> | Yes                 | Yes<br><i>14</i>            | Yes             | N/A                  |
| Intermediate labour market                         | Yes<br><i>18</i>      | Yes             | Yes                 | N/A                         | N/A             | Possible             |
| Cooperatives                                       | Possible              | Possible        | N/A                 | Possible                    | Possible        | Yes                  |
| Mutual guarantee schemes                           | Possible              | Possible        | N/A                 | Possible                    | Possible        | Possible             |
| Local Exchange Trading System (LETS)               | Possible              | Possible        | N/A                 | N/A                         | N/A             | N/A                  |

Numbers identify case studies in chapter 9



### 3 LOANS FOR FINANCING ENERGY EFFICIENCY IN PRIVATE SECTOR HOUSING

#### GENERAL DESCRIPTION

Loans to individual householders to finance energy efficiency measures are of two types – secured and unsecured.

Local authorities may be able to influence the provision of loans by negotiating favourable interest rates with lenders, for example by establishing a home improvement agency. They may also influence the take-up of loans by developing partnerships to promote such schemes with local estate agencies, mortgage providers and advice services such as those operated by the electricity companies and the Energy Efficiency Advice Centre (EEAC) network.

#### TARGET GROUPS

The primary target groups for both secured and unsecured loans are middle- and upper-income owner-occupiers, where the credit risk is low or where individuals have existing good credit records.

#### Secured loans

**SL**

Secured loans are provided to individuals who offer their home as security. Mortgages are one of the most common forms of secured loan and are more appropriate for larger financial measures, such as central heating installation or double glazing. Such loans are often taken out with a new mortgage when moving home, or carrying out major refurbishment projects.

A number of the major mortgage lenders, including the Halifax and the Nationwide Building Society, have conducted trials. They have used proprietary home energy rating models to provide energy ratings for individual properties with a view to the new owners acting on the results of the survey.

#### CASE STUDY 6 Home energy audits

*Page 28*

#### Unsecured loans

**UL**

Unsecured loans are the most common type of loan and are used for a wide variety of purposes from buying cars and holidays to home improvements, including energy efficiency measures. Most loan providers will have a credit

rating checklist that applicants must satisfy before the loan is granted.

Unsecured loans generally have a higher interest rate than secured loans and can be obtained from a variety of sources including banks, building societies, finance houses, credit cards, retail credit (for example, for the purchase of appliances) and credit unions.

There are a number of examples where local authorities have become involved, either directly or indirectly, with the provision of unsecured loans to facilitate energy efficiency measures within homes. A number of local authorities have organised and promoted low interest loans for energy efficiency measures with lending institutions.

#### CASE STUDY 7

*Page 29*

North Cornwall District Council

Although tenants have little incentive to invest in their homes, examples exist where low-cost measures, such as low-energy lighting, have been bought by tenants in social housing using credit facilities.

#### CASE STUDIES 2, 8 AND 9

*Page 24, 31*

Tower Hamlets, Leicester  
and Coventry City Councils

*and 32*

#### POSITIVE AND NEGATIVE ASPECTS

A key benefit from a local authority perspective is that the onus is on the individual householder to take the financial risk for installing an energy efficiency measure.

#### The borrower's point of view

A negative aspect of loans is that many lending institutions have a lower limit of £500, which may exclude the option of loan finance for many households for all but the most expensive measures.

Initial indications are that people prefer to pay for measures such as cavity wall insulation either by cheque or credit card.

For homeowners wishing to undertake a major energy efficiency project – such as installing a new central heating system – extending a mortgage or taking out another secured loan will offer longer repayment terms at more favourable rates of interest.

## LOANS FOR FINANCING ENERGY EFFICIENCY IN PRIVATE SECTOR HOUSING

### The lender's point of view

Providing a loan product targeted specifically at energy efficiency may be viewed as being part of a strategy of environmental and ethical finance which is becoming an increasingly important sector of the personal finance market. The Co-operative Bank has developed a range of personal financial products to meet the needs of this growing market. The package includes a low-interest loan scheme for energy efficiency measures, which is being promoted through a number of organisations with links to local authorities, such as EEACs.

Having agreed to provide a loan to an individual, the lender has no control over how the money is spent, which means that money borrowed ostensibly to finance a central heating installation could be used to purchase anything from a holiday to an energy-inefficient fridge.

### SOURCES OF FUNDING

Loans can be obtained from a wide number of sources including banks, building societies, finance houses, credit card companies, retailers, credit unions and energy services companies (ESCOs).

### TIMESCALE

Many lending institutions can offer a decision on a loan request within a matter of hours, thus enabling energy efficiency measures to be installed in a relatively short time.

### REPAYMENT

Repayment periods can be from as short as six months for some credit union loans to 25 years for loans taken as extensions on mortgages.

With unsecured loans, it is not possible to repossess the item that has been purchased if it is a free-standing loan. It is only possible to repossess items if, for example, the property is hired or is held on a hire purchase or conditional sale agreement. The rules vary under the Consumer Credit Act 1974 but, in any event, if the appliances are held on the property, repossession cannot take place without a Court Order. In the case of some energy efficiency measures, for example cavity wall insulation, repossession is not an option.

### SCALE ISSUES

The scale of impact of loan schemes for householders can largely be determined by the amount of resources a local authority can provide to organise, promote and administer the scheme. Although many loan initiatives are in their early days, initial feedback indicates that thousands of households in an authority's area could benefit from such initiatives.

In many cases, there is little need for extra funding to set up a loan scheme. It can be added on to an existing initiative. Alternatively, the local authority could work with a local installer or retailer to promote an existing loan scheme, such as low- or zero-interest credit terms on energy-efficient appliances.

### LEGAL CONSIDERATIONS

Local authorities have a number of legal powers to assist or intervene in the private sector to provide services, carry out works, provide materials and provide financial assistance. The relevant legislation is contained in the following acts:

- Local Government & Housing Act 1989 – Section 169
- Housing Grants, Construction and Regeneration Act 1996 – Sections 57 and 76
- Local Government Act 1988 – Section 24
- Housing Act 1985 – Sections 435 and 438
- Housing Act 1996 – Section 22.

If an authority or an associated body of the authority wishes to provide loans direct to the public, it must be registered under the Consumer Credit Act 1974. The Financial Services Act 1986 should also be referred to.

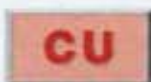
### CONSULTATION

Most successful schemes have incorporated a consultation process at an early stage involving council officers, council members, partner organisations and networks. Such a consultation process will ensure that all those involved in the project, either directly as an officer responsible for the scheme or indirectly as a member, are fully committed to the project's success and that any problems will be more easily overcome.



## 4 LOAN FINANCE – CREDIT UNIONS

### GENERAL DESCRIPTION



There are over 600 credit unions throughout the UK with a total membership of around 200 000.

They are mutual savings and loan organisations registered with the Registrar of Friendly Societies, and are set up for the benefit of their members. A credit union is owned and controlled by its members, and is a form of financial cooperative. In addition to savings and low-cost loans, a credit union will often provide free life assurance to its members.

Members of a credit union are united by at least one of three types of common bond:

- community – live in same geographical area
- employee – employed by same employer
- association – members of the same organisation, such as a trade union.

In 1996 a new form of bond was established, which effectively combined the community and employee bonds. Thus the common bond can be established by people 'residing in, or being employed in, a particular locality'.

Over two-thirds of credit unions have a community common bond, with the remainder being split approximately between the other two types of common bond. The employee credit union is the fastest growing sector.

Regulations governing credit unions stipulate that all members who borrow must also save with the credit union. Before making a loan the credit union will normally have expected the borrower to save with the union for a minimum period of time; generally this is likely to be a period of three months.

### TARGET GROUPS

While credit unions comprise members from all sectors of the community, the largest groups are from low- to middle-income households.

Community credit unions are often the only source of savings for some sections of the population without a bank account, or who would be unlikely to be granted loans from other traditional lending sources because of low pay or

because the applicant receives benefit. They are, therefore, one of the most potentially effective channels for communicating with this group and encouraging them to invest in energy efficiency.

Employee credit unions, which are the fastest growing sector, have members in all income and socio-economic classes.

### POSITIVE AND NEGATIVE ASPECTS

One of the key positive elements about credit unions is that there is an extensive network of unions throughout the UK. Another positive element is that they tend to be community-based, or have a common interest, and can act as a marketing channel to their members.

The rate of interest, which is set by law, is generally lower than for other sources of loan finance.

Many local authorities already support credit unions and could consider developing initiatives in conjunction with their local union, or alternatively could promote existing energy efficiency schemes through them. Behavioural measures, such as advice or training initiatives, would be particularly appropriate for this channel. Board and committee members of the credit union may be ideal candidates for an energy awareness training course run by a local authority.

Possibly the most limiting factor for credit unions is the size of the loans they are able to make. The amount loaned is usually calculated as a multiple of the amount a member saves. In many cases this could preclude loans for more expensive measures such as central heating installations or double glazing. However, it will not exclude loans for basic insulation measures such as loft insulation or cavity wall insulation, simple heating system upgrades, CFLs or for appliances with a high energy efficiency rating.

### SOURCES OF FUNDING

Generally, the credit union funds are invested by members on a regular basis, providing a pool of money that can be loaned to individual members once they have established a record of saving with the

## LOAN FINANCE – CREDIT UNIONS

union. The amount loaned is usually calculated as a multiple of the amount saved, or as a percentage of the total assets of a union. Each credit union sets its own lending criteria, but legislation prevents more than 5% of the union's assets being loaned to one individual.

Members' savings could be topped up by external funds, for example a grant. Redditch Credit Union successfully applied for HECAAction funds to set up a capital fund for energy efficiency loans.

### CASE STUDY 10 Redditch Borough Council

Page 32

#### TIMESCALE

There are few timescale limitations to the promotion of energy efficiency through credit unions. The key issue will be the length of time it will take individual members to save either sufficient funds to enable them to borrow the requisite amount from the credit union, or a sufficient amount of time to establish a creditworthy status under the union's rules.

#### REPAYMENT

Credit union repayment terms are fixed by law at a maximum APR of 12.68%, which equates to 1% per month on a reducing balance. This is generally cheaper than other more traditional forms of unsecured loan, for example credit cards or bank loans.

#### SCALE ISSUES

For individual credit unions, the size and assets of the credit union largely limit the scale of loan. Certainly, for some of the most effective measures, such as cavity wall insulation, the credit union may be an ideal mechanism through which to finance increased uptake.

#### LEGAL CONSIDERATIONS

More details on the legal framework under which credit unions operate can be found in the following legislation:

- Credit Union Act 1979
- Deregulation Order 1996
- Industrial and Provident Societies Acts 1965-1978.

Further information on credit unions can be obtained from the Association of British Credit Unions Ltd (ABCUL – see appendix 2).

If a credit union links loans from its funds to a particular product, service or supplier it may need to apply for a licence under the Consumer Credit Act 1974.

#### CONSULTATION

Local authorities are ideally placed to develop and promote energy efficiency initiatives through locally based credit unions, not least because they form an established mechanism for communicating with the local community. Indeed, a number of local authorities have their own employee credit union through which they could promote energy efficiency.

Early consultation with the credit union board will encourage them to adopt any initiatives the authority may develop. Similarly, linking credit unions with other local groups, such as Local Agenda 21 which can promote the energy efficiency and environmental message, could provide an effective local partnership to the benefit of all.

### CASE STUDY 11 LEEP – credit union loans for CFLs

Page 34



## 5 ENERGY SERVICES COMPANIES

## GENERAL DESCRIPTION

**ESCO**

The idea of an energy services company (ESCO) is relatively new to the UK. The concept has been working successfully in the United States and mainland Europe for some years. The experience in Britain has generally been limited to the provision of community heating schemes, sometimes incorporating combined heat and power (CHP), primarily in the social housing sector. However, these schemes have tended to be limited to a supply of cheap heat and the provision of heating systems within the home, with little conscious regard for the principles of energy efficiency.

There are a number of definitions of ESCOs. For the purposes of this Report we shall adopt the definition used by the EST:

'An energy services company (ESCO) can be broadly defined as a company providing a complete energy service, ie combining energy supply with the provision of measures concerned with efficient use.' (Energy Saving Trust, 1998)<sup>14</sup>.

In practice, the basic formula for an ESCO could be a 'one-stop-shop' providing an integrated package of energy services including:

- property-specific energy advice – this is likely to be done by mailing a home energy survey to all properties in an area, processing the returned survey using a BREDEM-based software programme, and sending the results back to householders
- discounted prices, available from an approved network of contractors, for insulation, glazing and heating – in some cases, the ESCO will organise the survey and installation work on behalf of the customer; materials for DIY may also be available by mail order
- low-cost finance packages to enable householders to spread the cost of improvements
- discounted gas, electricity and oil.

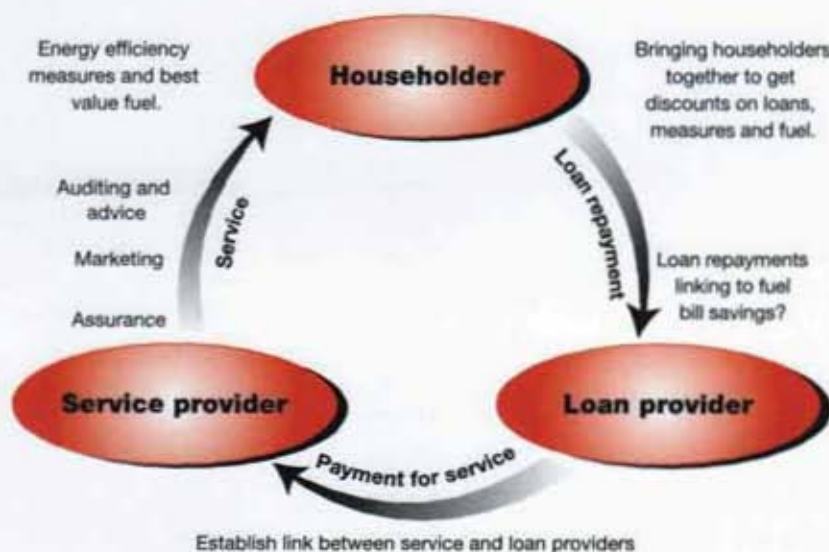
A few organisations have become ESCOs through a gradual expansion of their business. For example, a company selling a core service or product may add new services and products to the range over the years, thus providing an integrated package to the consumer.

**CASE STUDY 12**  
**Tincknell Fuels Ltd**

Page 35

Some local authorities, for example Leicester City Council, have developed schemes at a local level, with local heating and insulation contractors, which can include provision of low interest finance packages. Such authorities could also act as brokers, negotiating the best value gas and electricity supply for owner-occupiers in their scheme, once the energy markets become fully competitive. These discounts could be more significant if the owner-occupier scheme is linked with similar schemes that the authority may be developing for council tenants.

A local authority may also consider becoming a second tier supplier of both gas and electricity once the markets are fully deregulated.

*How ESCOs work in  
the private sector*


## ENERGY SERVICES COMPANIES

The ESCO can be area-specific. For example, it may be associated with one or more local authorities, it may operate within a distinct area within a community (in a similar way to credit unions), or it may be linked with affiliate groups where a common membership already exists. The Trades Union Congress (TUC) has established Union Energy, an ESCO which is setting up best value gas and electric fuel supply deals for its members. Union Energy is intending to use the profits from the fuel supply business to 'pump prime' a package of energy efficiency measures to members.

### TARGET GROUPS

The key target groups for ESCOs are middle- and high-income owner-occupiers, who have the resources and motivation to invest in the improvement of the energy efficiency of their homes. Other ESCOs are being developed for local authority and housing association tenants.

Alternatively, ESCOs could be developed for people with a common membership or affiliation, for example the TUC-backed Union Energy, or for people with specific interests such as renewable energy.

### CASE STUDY 13 The Solar Club

Page 35

### POSITIVE AND NEGATIVE ASPECTS

'A new world for energy services?' (Owen and King, 1997<sup>[5]</sup>), a report on research into the role and potential of energy services, is somewhat cautious about the future for ESCOs. Among the report's recommendations are that some form of intervention will be needed to support the ESCO concept and to support an energy efficiency element within such concepts. Local government could play an important role in this intervention.

Significant funds may be required to launch an ESCO. In its early stages cashflow forecasts should build in contingencies to take account of the long sales cycle.

For example, the Energy Club found response rates were significantly improved where local authorities provided specific endorsement.

### CASE STUDY 1 The Energy Club

Page 23

Potential developers of ESCOs should also be wary of the implicit assumption that energy efficiency will sell itself. Energy efficiency must be treated like any other product or service. A consumer need must be identified; a product or service must satisfy that need; that need must be turned into interest and desire for the product or service; and then finally a sale will be achieved.

Establishing a framework to administer such large numbers of processes efficiently is key to the success of the ESCO. This will include setting up appropriate sales and marketing, as well as operational and financial information systems.

### SOURCES OF FUNDING

Funding for ESCOs could come from a variety of sources that could be used individually or in conjunction with each other. Local authorities may be able to provide some core funding, utilise existing administrative systems, and provide staff time to set up and run an ESCO.

Other sources of funding which local authorities could consider include the EST, fuel utilities, financial institutions, and suppliers and installers of measures.

A more cost-effective method may be to provide funding for an existing ESCO to work within the authority's area.

### TIMESCALE

Depending on the size and scale of the proposed ESCO, it could be feasible to set up a scheme within a couple of months, provided the financial resources have been committed.

Alternatively, an authority may wish to work with an existing ESCO such as the Energy Club, currently managed by Northern Electric. In this case, the timescale will be significantly shorter.

The sales cycle, from initial marketing to householders (by sending out home energy surveys



## ENERGY SERVICES COMPANIES

or contacting potential customers) to the installation of works and receipt of money, is likely to take several months.

**REPAYMENT**

Terms of repayment, including interest rate and repayment period, will be set by the financial institution providing the loan finance.

Local authorities could consider providing low- or zero-rate interest loans to householders, providing that they are willing for a third party to administer the funds on their behalf. This arrangement should take account of the restrictions placed upon local authorities by the following legislation:

- Local Government & Housing Act 1989 (Section 169)
- Housing Act 1985 (Section 438).

**SCALE ISSUES**

In theory, ESCOs could range in size from small community-based organisations, to large organisations operating on a regional or national basis.

ESCOs could also be set up as additional services to existing organisations, for example trade unions, mail order companies, or motoring clubs.

**LEGAL CONSIDERATIONS**

If an authority chooses to set up its own ESCO, it will need to consider closely the implications of the following legislation:

- Local Government & Housing Act 1989
- Housing Act 1985
- Consumer Credit Act 1974.

There are significant implications for authorities should they wish to become second-tier suppliers of gas and/or electricity. The Supply Licences relating to gas and electricity, available from OFGAS and OFFER respectively, place onerous conditions upon any organisation wishing to enter this market.

**CONSULTATION**

Working in partnership with an existing ESCO will require significant consultation with councillors, who will need to feel confident in providing endorsement for one particular ESCO.

If the authority chooses to set up its own ESCO, early consultation with the council's legal and finance departments will be necessary, as will early negotiations with both suppliers and installers of energy efficiency measures and potential fuel suppliers. It may also be appropriate to consult with a company specialising in providing marketing services, to review the most effective strategies for achieving the authority's objectives. Early consideration should also be given to how the authority will set up the administrative and sales information systems required to process what could be a very complicated multi-staged sales cycle.

## 6 ENERGY EFFICIENCY STANDARDS OF PERFORMANCE

### GENERAL DESCRIPTION

#### SoP

The Standards of Performance (SoP) aim to help Britain's consumers use electricity more efficiently. Devised by the Office of Electricity Regulation (OFFER) with guidance from the Energy Saving Trust (EST), the Standards require public electricity suppliers (PESs) to meet energy saving targets by March 1998. The Standards were introduced in 1994 in England and Wales and 1995 in Scotland.

Under the Standards, PESs are allowed to raise the equivalent of £1 a year per domestic and small business customer, through electricity bills, to finance energy efficiency programmes. In total this amounts to £25 million being spent on energy efficiency schemes each year. OFFER has announced that the Standards will continue, largely in their present form, until the year 2000.

### TARGET GROUPS

The primary target group for SoP projects are households whose primary form of heating is electricity. However, many PESs have run successful SoP schemes aimed at households with any form of heating. This is particularly the case in the distribution of compact fluorescent lamps (CFLs), and many innovative schemes and delivery mechanisms have been developed by the PESs to distribute lamps to households. For example, successful schemes have been pioneered in delivering CFLs to homes via schoolchildren, with the added benefit of energy advice that may result in some behavioural improvements that will improve energy efficiency.

Similarly, a number of PESs provide either direct or indirect support to other energy efficiency agencies, for example the energy efficiency advice centres (EEACs), where quantifiable savings for both measures installed and for behavioural improvements can be measured accurately by the market research programme that is linked to the EEAC programme.

### POSITIVE AND NEGATIVE ASPECTS

SoP schemes to date have been very successful in gaining financial leverage from third parties, including suppliers, installers, local authorities, housing associations, and householders.

As many SoP schemes are targeted at homes with electric heating, which forms a small proportion of heating systems, some PESs have reported that they are finding it increasingly difficult to identify cost-effective projects. This provides an opportunity for bodies such as local authorities and housing associations to use their local knowledge and networks to work with the PESs to develop and implement new and cost-effective schemes.

Some PESs have already met their target savings, but have promised to spend any funds left over from the franchise revenue allowance on other energy efficiency projects. Again this provides further opportunity for local authorities and housing associations to develop partnership schemes.

### SOURCES OF FUNDING

The main source of funding is the £1 per customer raised by the PESs. However, SoP schemes are an excellent example of how core funding can be used to attract additional funds from third parties. It is estimated that for every £1 spent by the PES, the additional leverage has created a total investment of £5 in energy efficiency improvements.

### TIMESCALE

Historically, most decision-making processes relating to the development of a SoP scheme from idea to inception have a timeframe of a few months. All proposed SoP projects have to be evaluated and approved by the EST before launch.

The timescale of individual programmes can range up to one year. Many programmes are phased in over a long time period – for example, a cavity wall discount scheme will target certain postcode areas for specific periods of time before moving to other postcode areas.



## ENERGY EFFICIENCY STANDARDS OF PERFORMANCE

**REPAYMENT**

SoP schemes do not usually involve any repayment.

**SCALE ISSUES**

SoP operates three different types of programme:

- national
- framework
- regional.

National schemes, originated and managed by the EST, operate throughout England, Wales and Scotland and have tended to concentrate primarily on the provision of free or subsidised CFLs and high-frequency lighting (HFL). A good example was the subsidy of CFLs in autumn 1995/spring 1996, where CFLs were promoted through retail channels at a discounted price of £9.99 or less. Over 750 000 CFLs were sold during this promotion. Other recent schemes include a Budget Heating scheme and the Fridgesavers programme. The Budget Heating scheme has been developed for low-income households that rely on solid fuel fires. Storage heaters running on off-peak tariffs will replace these, and appropriate insulation measures, for example cavity wall insulation, will also be installed.

**CASE STUDY 14**  
**Fridgesavers**
*Page 36*

Framework schemes, which form the smallest percentage of SoP schemes, are developed by the EST and one or more PESs for implementation in one or more PES areas. These schemes are then replicated in other PES areas. Examples of such initiatives include communal lighting projects in multi-residential buildings where existing lighting is replaced with efficient CFLs, and the installation of gas-fired CHP systems to replace electric heating in multi-residential housing schemes.

Regional schemes make up the vast majority of all schemes in the programme. These schemes are

designed and operated by individual PESs, and may subsequently be replicated in other PES areas. These can be further subdivided into the following broad areas:

- owner-occupier schemes
- social housing schemes
- 'special' groups schemes – eg low-income households, disabled customers
- CFL schemes
- non-domestic schemes.

Cavity wall insulation, CFLs and loft insulation are the three most common measures installed and show the highest lifetime energy savings.

**LEGAL CONSIDERATIONS**

There are no general legal issues that apply across SoP schemes, and to date most SoP schemes have been relatively straightforward from a legal perspective. Each scheme should be looked at individually to assess any potential legal problems.

**CONSULTATION**

A number of PESs have already undertaken some of the most cost-effective programmes to improve the energy efficiency of electrically heated homes. Around 100 000 homes have benefited from cavity wall insulation as a direct result of SoP projects.

Increasingly, PESs are finding new, cost-effective ideas harder to develop. Indeed, in the past there have been instances where PESs have found take-up of discount offers to be relatively poor. Some householders have felt suspicious of an electricity company giving away 'something for nothing'. There is, therefore, a potential role for local authorities and other bodies with a responsibility for energy efficiency to work in partnership with the PES to develop new ideas, and to endorse and promote existing programmes to ensure maximum cost-effectiveness.

**CASE STUDY 15**  
**SWALEC**
*Page 37*

## 7 BULK DISCOUNTS AND CASHBACKS

### GENERAL DESCRIPTION



Bulk discounts are available from installers, retailers and manufacturers of insulation and heating products, and services.

Cashbacks have most effectively been developed at a national level, where a householder installing a particular measure can apply for a cashback, or refund, on part of the purchase price.

These may have been negotiated at a national level – for example, a successful scheme provided CFLs at a discount price through retailers (see page 12).

At a regional level, groups of authorities working together have successfully negotiated lower prices for various products and services on the assumption that they are able to provide large numbers of customers to either the retailer, installer or manufacturer. Similarly, many regional SoP schemes will be partly based upon a bulk discount element providing some financial incentive to the overall programme. A cashback promotion can be viewed as another form of discount, with the exception that the purchaser pays the full price for the measure and then claims the discount back, usually from a third party organisation, such as the EST.

More recently, and particularly since HECA came into force, many more local authorities are looking at this option to help promote take-up of energy-saving measures.

Bulk discounts through combining the existing and potential purchasing power of large numbers of consumers can be provided by ESCOs.

### CASE STUDY 2 Page 24 London Borough of Tower Hamlets

#### TARGET GROUPS

Bulk discount and cashback schemes can be targeted at all sectors of the population. However, many schemes have tended to concentrate on improvement measures such as cavity wall insulation, therefore targeting will be aimed at postcode areas with a significant proportion of homes built since the 1920s.

### POSITIVE AND NEGATIVE ASPECTS

Negotiating bulk discounts is an excellent example of where a local authority can act positively as a facilitator to improve the energy efficiency of the owner-occupied sector without incurring expenditure.

Local authorities should beware of the artificial inflation of the original price before a discount is applied. Similarly, a number of smaller authorities have found many suppliers reluctant to participate in discount programmes. This is particularly the case when other offers for the same product or service already exist. For example the discounted cavity wall programme successfully organised and promoted by the EST through part of 1996 and 1997 meant that some locally negotiated initiatives were less favourable to the consumer than the nationally negotiated discount.

It will be significantly easier for local authorities to set up discount schemes with organisations that have a strong local or regional presence. Many of the larger DIY companies will centralise most of their decision-making concerning pricing policy, giving little flexibility for local store managers to offer substantial discounts.

For measures such as insulation, it would be most cost-effective to invite existing HEES installers in the area to participate in any bulk discount scheme, as this would help leverage HEES grant funding for eligible households. Promotional activity could then incorporate details of HEES and any relevant grant in addition to the bulk discount scheme, thus providing an additional attraction to local installers to participate.

The main negative aspect about cashback schemes is that the entire sales cycle is extended by the need for the purchaser to claim a refund, and for that claim to be processed. This has obvious cost implications for any such initiative.

#### SOURCES OF FUNDING

At a local level, many suppliers and installers may be willing to provide discounts purely on the assumption that endorsement by the local authority is likely to lead to a high number of sales leads.



## BULK DISCOUNTS AND CASHBACKS

The local authority should consider how it will resource the marketing of any scheme. The considerations are:

- whether the local authority is to fund the scheme
- whether existing publicity channels (eg newsletters), or existing sponsorship activities (eg sponsorship of an EEAC) can be used to promote the scheme
- whether the supplier(s) and/or installer(s) would provide financial support for any marketing activity.

**TIMESCALE**

Experience suggests that the sales cycle can take anything from one to six months depending on the size of the investment. For more expensive improvements, such as double glazing, householders tend to shop around or may take some time to decide whether they think the investment is worthwhile.

**REPAYMENT**

Most discount schemes will use the normal methods of payment – cash, cheque, charge card or credit card.

In some cases, a low-interest finance package may be available for such schemes, spreading the repayment period for up to 36 months.

**SCALE ISSUES**

Bulk discount schemes can range in size from small locally based discounts (for example, discounted CFLs from a local hardware shop), to regional or national schemes, which may be organised by a council, PES or an organisation such as the EST.

**LEGAL CONSIDERATIONS**

There are few legal considerations for local authorities to consider, but they should be aware of the Data Protection Act 1984 if they are considering setting up a direct marketing initiative to promote the scheme and provide leads to contractors.

The authority should also be aware of the Consumer Credit Act 1974 if it is considering providing loan facilities to implement energy efficiency within its area.

**CONSULTATION**

As with most measures, support and endorsement from the authority's senior management and relevant members' committees will help the negotiation process with potential suppliers. It will also help with the success of the scheme once it is up and running.

Some basic research is needed to ensure that a similar scheme is not being developed at a national or regional level, which would lead to a duplication of promotions, and could cause confusion to the householder. If national or regional schemes exist it may be more appropriate for the local authority to develop and implement a promotional strategy to ensure that the maximum number of households in its area benefit from the scheme.

Early discussions with local installers and suppliers could help establish whether other overlapping schemes are in existence or being planned, and whether that supplier or installer would be willing to provide real discounted prices. This could avoid spending resources on developing project ideas when there is little hope of their being implemented.

## 8 LOOKING TO THE FUTURE

### COMPETITION IN DOMESTIC ELECTRICITY AND GAS SUPPLY

Over the period April 1996 to September 1998, competition in domestic electricity and gas supply is being phased in across England, Wales and Scotland. This will allow domestic consumers to choose their electricity and gas supplier. This should lead to lower fuel prices and services that are more efficient than under the previous market structure. However, the establishment of a competitive market could lead to householders using more fuel as prices fall.

This change also opens up new opportunities for energy efficiency investment in housing by energy supply companies, as these companies seek to 'add value' to their core service of fuel supply and thereby gain a competitive advantage, while also retaining existing customers.

OFFER has already announced that the Energy Efficiency Standards of Performance (SoP) scheme will be continued for another two-year period from 1998 to 2000 (OFFER 1997), although it will not apply to new electricity suppliers in each of the PES areas.

#### CASE STUDY 16 Energy Efficiency Homes

Page 38

#### What do energy supply companies want from the private housing sector?

Although the new energy supply companies want to establish a reasonably sized customer base their potential profits from supplying energy are small. Consequently, they want to secure that customer base over time to increase profitability. Providing energy services, such as energy efficiency measures, will provide a broader range of services to their customers, which will also provide additional income and profit streams.

One of the biggest costs that any new fuel supplier will have to account for will be the cost of marketing to acquire new customers. By providing a wider range of services than the core supply of gas or electricity, the supplier will be more likely to retain its customers.

### LEGAL ISSUES

There are legal implications where arrangements for fuel supply are made between private landlords and energy supply companies. The key issues concern consumer and competition legislation.

Are landlords sacrificing their tenants' consumer rights by locking them into supply from one company? The range of contractual terms is currently being investigated by a number of energy supply companies, local authorities and housing associations.

It could also be argued that such arrangements are anti-competitive and could be challenged under European Union competition legislation.

### COOPERATIVES

**C** A cooperative is a form of organisation where voting rights are distributed equally among all members. Unlike the more common limited company, where voting rights are proportional to the number of shares held, a cooperative works on the principle of 'one member, one vote'. Thus, one individual or organisation cannot dominate a cooperative. The aim of a cooperative is to ensure that ownership and investment in a business is as widespread as possible, with any surplus returned to the members in the form of dividends.

Cooperatives have been a popular form of organisational constitution for many years; for example, in various types of business and in the provision of housing. Credit unions (see chapter 4) are a form of cooperative.

Cooperative investment in energy, in particular renewable energy, has been commonplace in parts of Europe for many years, but has been almost unheard of in the UK until recently. In Europe many people have found that cooperative ownership is an attractive way to invest their money, as the dividends received may be greater than bank interest rates. In addition, investors can make a positive contribution to the environment through reducing the need for energy generated by fossil fuels.



## SOCIAL INVESTMENT SOCIETIES

Social Investment Societies have developed in the UK over the last five years primarily to concentrate on micro-credit or small business investment. Provident Societies are established as industrial and socially directed investment. This form of organisation is relatively common in developing countries and received a boost in 1997 when a micro-credit summit was held in Washington DC with the support of the World Bank.

A common form of micro-credit lending is to establish a community of guarantors around an individual borrower who will guarantee that the borrower will repay the loan. The guarantee may be moral rather than legal, since other members of the guarantee community may also be borrowers. This shared responsibility and mutual support of the guarantee community helps make this form of organisation highly successful. Borrowers are also expected to save with the society.

Initial loans are usually for a small amount and, once this is repaid, the group has the opportunity to apply for further and larger loans. The ultimate aim is for borrowers to transfer to mainstream finance mechanisms. This form of finance mechanism might be used to help entrepreneurs set up energy efficiency related businesses. In Chicago, USA, this form of mutual lending has been used successfully to fund the renovation of run-down apartment blocks. Repayment rates in Chicago have been as high as 98%, which is significantly better than more traditional forms of finance can expect.

A network of social investment organisations known as the Rebuilding Society was established in 1997 to promote these societies in the UK.

INTERMEDIATE LABOUR  
MARKET/ENVIRONMENTAL TASK FORCE

There are other indirect mechanisms for funding energy efficiency. One of the most obvious methods is where the funding is used to provide job and training opportunities.

ILM

In both Europe and the UK, cooperative developments have ensured that local companies benefit through the award of construction and maintenance contracts.

The cooperative form of investment can work effectively where a developer is prepared to invest in setting up the scheme initially while the cooperative raises funds through a share offer to purchase either all or parts of the scheme from the developer. As well as renewable energy projects, the cooperative approach might be appropriate for CH<sub>2</sub>F or district heating schemes, particularly if such schemes can generate additional revenue from selling surplus electricity to the local PFS.

## CASE STUDY 17

Page 39  
The Baywind Energy Co-operative Ltd

## MUTUAL GUARANTEE SOCIETIES

Mutual Guarantee Societies are relatively unknown in the UK. They are, however, common forms of organisation in Europe. In the UK the Department of Trade and Industry supported a national publicly programme in 1997 through the Business Links network.

The principle behind Mutual Guarantee Societies is that businesses join together and provide a guarantee to the society, which is used as collateral to obtain bank loans for member businesses of the society.

By coming together in a society, a lower rate of interest can be negotiated than a single company could obtain on its own. A member of the society taking out a loan is primarily responsible for repaying the loan, but in the event of payment default other members' guarantees can be called upon.

A Mutual Guarantee Society could arrange with a bank to provide loans which could be used by the society's members to invest in energy efficiency.

An example could be a small property company renovating and refurbishing homes, which could use such loans to increase the energy efficiency of the properties they are renovating.

## LOOKING TO THE FUTURE

Local authorities have the opportunity to work with local training and employment providers, such as Training and Enterprise Councils (TECs), to stimulate such initiatives. A number of HEES installers have successfully worked with local training providers to provide training opportunities for school or college leavers and the unemployed.

The Government has set up an Environmental Task Force. The Task Force will provide unemployed people with on-site training and work experience in socially and environmentally useful projects. Such projects may include energy efficiency schemes.

There has been much interest in the concept of the 'Intermediate Labour Market' that has been pioneered in the UK by the Wise Group in Glasgow. The basis on which the Intermediate Labour Market is founded is to give unemployed people a route back into work by providing them with the chance to receive training, work experience and a living wage while working on socially useful projects in a commercial environment.

The benefits of the Intermediate Labour Market approach are to bridge the gap between long-term unemployment and the job market, while at the same time providing real benefits to the local community.

### CASE STUDY 18 Wise Group

Page 40

### LOCAL EXCHANGE TRADING SYSTEM (LETS)

LETS is a community-based barter system where services and products are exchanged between members, without the exchange of money. Each

LETS group uses its own system of currency, and providers of products or services build up credits when they 'sell' the service or product. These credits can then be used to purchase other products and services. LETS currency can be used in conjunction with money in some circumstances.

It is estimated that there are some 500 LETS groups nationally, with around 50 000 members. Although the concept of LETS has been around for many years, there has been significant growth in interest over the last few years, and it is expected that this growth will continue.

Many low-income households already rely on help from friends and relatives for essential building maintenance<sup>[6]</sup>, often in the form of DIY.

LETS groups with plumbers, electricians or builders among their members could promote energy efficiency services. LETS currency could be used to pay for the installation of energy efficient condensing boilers, central heating controls, solar water heaters or loft and pipe insulation.

The community base and ethos of sustainable trading makes these groups likely to be interested and motivated towards energy efficiency and sustainable development.



## 9 CASE STUDIES

Throughout this Report the following abbreviations are used to indicate the various mechanisms for implementing energy efficiency measures. The abbreviated form will assist the reader in cross-referencing between the early sections of the Report and the case studies that illustrate the success of the strategy.

|             |                           |            |                              |
|-------------|---------------------------|------------|------------------------------|
| <b>SL</b>   | - SECURED LOANS           | <b>SoP</b> | - STANDARDS OF PERFORMANCE   |
| <b>UL</b>   | - UNSECURED LOANS         | <b>CU</b>  | - CREDIT UNION               |
| <b>BD</b>   | - BULK DISCOUNTS          | <b>C</b>   | - COOPERATIVE                |
| <b>ESCO</b> | - ENERGY SERVICES COMPANY | <b>ILM</b> | - INTERMEDIATE LABOUR MARKET |

## 1 THE ENERGY CLUB

**Description**

The Energy Club aims to provide a full range of energy efficiency services and fuel supplies to owner-occupiers. The concept was initially piloted in two local authority areas in the winter of 1995/6. The success of this pilot led to a national rollout involving a number of local authorities. Energy Club Services Ltd managed this programme, until it ran into financial problems when the licence to operate under the Energy Club brand was transferred to Northern Electric Supply Ltd.

The Energy Club was the first ESCO to market its services on the premises of energy efficiency, rather than purely on the supply of energy. One of the key elements of its marketing strategy was the development of partnerships with local authorities. This primarily involved mailing a copy of a home energy survey to all owner-occupiers within a local authority's area.

The core product range includes basic insulation measures such as cavity wall insulation; and central heating installation and improvements. Other products sold include CFLs, double glazing and some DIY products such as loft insulation and

draughtstripping. A low-interest finance package is available. In the geographical areas where gas deregulation had created a competitive market in the domestic sector, gas supply was also part of the product range. Gas and electricity will become an integral part of the product offering, once full deregulation of the respective markets takes place.

Data gathered from the home energy surveys is provided so that the local authority can develop a database of the energy efficiency of the private housing stock within their area. These data will also be useful for the more accurate targeting of future promotional activities which either the Energy Club or the local authority might undertake.

During its brief history Energy Club Services Ltd mailed some 850 000 households and provided energy advice to over 110 000 households that responded to the initial mailing. Initial levels of works undertaken as a direct result of the advice showed a take-up of approximately 2-3%, which rose to around 8% after further follow-up marketing activity, such as telesales.

**Opportunities and barriers**

The opportunities for the development of this concept are significant both in terms of the range of products and services offered, and in terms of the different marketing channels that can be used.

## CASE STUDIES

There are likely to be opportunities to extend the product range to include other energy-saving products, such as appliances.

Likewise, opportunities for developing marketing channels through other affiliate or membership groups could be explored. This could include existing membership networks such as environmental and political groups, or through affiliate organisations, eg banks, credit card companies, employers or motoring organisations.

The main barriers are likely to be: the conversion levels from marketing initiatives undertaken; the ability of the company to develop ongoing relationships with the customer; and the ability to keep the customer tied into a long-term fuel supply deal.

### Energy Club (status)

Although in many respects successful, the Energy Club encountered problems at an early stage due to the unexpected number of enquiries. This led to higher than expected marketing costs, which took longer than expected to convert into sales. This combination produced cash-flow problems resulting in the Energy Club passing into the ownership of Northern Electric Supply Ltd in July 1997<sup>(7)</sup>.

A parallel programme for local authority tenants, also under the Energy Club brand, has been developed by Energy Club Managers Ltd.

### Lessons learnt

Many of these lessons have been gleaned from the experience of Energy Club Services Ltd.

- The partnership with the local authority should be maximised, particularly concerning endorsement of the initiative at all stages of the sales cycle.
- The sales cycle should be simplified and made more efficient.
- It is necessary to seek greater involvement with sales and marketing companies, rather than specialists in energy efficiency. Energy efficiency will not sell unless it is positioned to meet real consumer needs; it should be sold like other products or services.
- Cashflow projections should incorporate provision for long sales cycles and other contingencies. Any such venture needs to be sufficiently capitalised to succeed.
- It is important to ensure all systems, whether computer-based or manual, are developed to a sufficiently robust level to cope with the size and complexity of the sales cycle.

### Contact

Marketing Department  
Northern Electric Supply Limited  
Carlisle House, Market Street  
Newcastle-upon-Tyne NE1 6NE  
Tel: 0191 210 1133

## 2 GRANTS AND DISCOUNT SCHEME - LONDON BOROUGH OF TOWER HAMLETS



### Description

The scheme is a simple discount-based initiative developed with local insulation installers.

A competitive loan package is available to finance installation. For lower-income households (incomes up to £15 000) and private landlords (see case study 4) interest-free loans are available. The loans are

administered by a local housing association which has a contract with the Council's Home Improvement Agency to administer loans. A property charge is put in place for the period of the loan, which is also administered by the housing association. For those on the lowest incomes (below £7500), loan repayment is linked to fuel bill savings. For households not eligible for interest-free loan assistance, the Co-operative Bank's preferential loans scheme for energy efficiency measures is available.

The scheme is being promoted via radio advertisements, posters and newspapers. The property



## CASE STUDIES

database held by the authority will be used to target private homes more accurately with details of measures considered appropriate.

Tower Hamlets are establishing the East End Energy Savers scheme in-house as part of their energy efficiency unit. The project's costs will be supported by income generated from two sources. The first source is commission paid by installers for each completed installation. The second source is generated by advisers working on the project who act as the first point of registration for the HEES and also carry out the advice element of the grant. This generates about £20 for every household that registers for HEES and receives energy advice from the project's advisers. The advisers will be multi-lingual, enabling the energy advice to be delivered in the main languages spoken in the community – English, Bengali and Sylheti (an unwritten language spoken by many Bengalis) – where nearly 40% of the population is from minority ethnic groups.

#### Opportunities and barriers

The opportunities to extend the scheme into heating systems and controls and into other energy-saving measures are being investigated.

Discussions have been held with the London Borough of Redbridge, which is commencing a 'Rent a Heat' scheme, providing new or improved heating systems for a weekly charge, under the second year of HECAAction funding. Both authorities will cross-refer clients to enable a more comprehensive range of measures to be offered under each scheme.

Tower Hamlets will also look at the opportunities to extend the scheme into neighbouring boroughs.

#### Status

The grants, discounts and loans scheme was launched in autumn 1997. The HEES element of the scheme was launched at the end of 1997.

#### Lessons learnt

- The idea of having different loan packages for different target groups, and the concept of linking repayments to the payback period of measures for the lowest income groups could easily be extended to other schemes.
- Setting up a profit-generating company to administer and promote energy efficiency schemes can create income for reinvesting in energy efficiency initiatives.
- The interpretation of the legal framework regarding the establishment of companies differs between the legal departments of individual local authorities. Some authorities are, therefore, able to develop such initiatives by establishing companies, whereas others are not willing to establish companies and have to develop such initiatives from within their own authority. This latter route means that the authority has to find the financial and personnel resources from existing budgets and take on much of the risk of the venture. By setting up a company to undertake such a scheme, the risk, including the financial and personnel resources required to service the venture, would be transferred from the authority.

#### Contact

Energy Efficiency Unit, London Borough of Tower Hamlets, 260 Stepney Way, London E1 3DW  
Tel: 0171 790 9849

## CASE STUDIES

### 3 DISTRICT HEATING SCHEME – ENVIROENERGY LTD (NOTTINGHAM)



#### Description

EnviroEnergy Ltd is a joint venture company formed in 1996 by Nottingham City Council and Energy and Technical Services Group plc (ETS) to manage Nottingham's existing combined heat and power (CHP) and community heating scheme. The main energy source for the scheme is the Eastcroft waste-to-energy incinerator run by WasteNotts Ltd (a private company wholly owned by Yorkshire Environmental – part of Yorkshire Water plc) with back-up provided by conventional gas boilers managed by EnviroEnergy at their London Road Heat Station.

Electricity is generated in steam turbines managed by EnviroEnergy at the London Road Heat Station and sold to East Midlands Electricity plc for distribution through the grid. The heat from this plant is provided to:

- 3600 council-owned homes
- 520 housing association homes
- 700 privately owned homes
- a number of commercial customers, including two large shopping centres, a hotel, council buildings, government buildings and university buildings. A separate steam supply is provided to a large pharmaceutical company.

Most of the homes served by the community heating scheme are in the St Ann's area.

Full details of the development, organisation and financing of EnviroEnergy Ltd can be found in the companion Report 'Taking stock – financing energy efficiency in social housing' (GIR 51)<sup>[8]</sup>.

#### Opportunities and barriers

The opportunities provided by CHP and district heating systems for the private housing sector are demonstrated by the Nottingham scheme, particularly for the 'right to buy' sector.

Local authorities could also consider working with private developers to establish such schemes when new or refurbishment developments are being planned. Installing CHP, or extending a district heating system to include a development of private homes, may prove to be cheaper than installing full central heating systems in each individual property.

The main barrier is likely to be persuading developers of the opportunities presented by such schemes.

#### Status

The company is operating successfully and is attracting new business, particularly from the commercial sector. It is generating an annual income of £100 000 for the City Council in the form of lease payments. At the same time, it has removed £9 million liabilities from the City Council's balance sheet. Homes connected to the community heating scheme are benefiting from a low-cost controllable heat supply (in 1996, 2.34p/kWh of useful heat as compared to 2.41p/kWh if provided through individual gas central heating systems).

#### Lessons learnt

- Large municipal district heating schemes can be successfully extended to include privately owned homes.
- Initiatives developed primarily for the public sector stock could be extended to the private sector.
- CHP and district heating should be more actively considered by private developers. The local authority could play a role in 'influencing' developers to consider these forms of heating.

The future for EnviroEnergy is likely to be as an energy services company, which might include services such as insulation measures.

#### Contact

EnviroEnergy Ltd, London Road Heat Station  
12 London Road, Nottingham NG2 3AB  
Tel: 0115 955 6677



## CASE STUDIES

#### 4 QUALITY RENTING SCHEME – LONDON BOROUGH OF TOWER HAMLETS



##### Description

The London Borough of Tower Hamlets launched an initiative to encourage private landlords to improve the overall standard and quality of accommodation. The quality renting scheme was launched in June 1997 and aims to cover a variety of criteria relating to private-rented accommodation, including energy efficiency. The scheme is jointly run by the Borough and Queen Mary and Westfield College, University of London.

All landlords are expected to apply for, obtain and retain 'quality renting' membership if they:

- currently let properties to the Council for temporary accommodation
- house Queen Mary and Westfield College or health authority students
- apply for renovation grants to bring empty private sector homes back into use.

Participating landlords are required to meet minimum standards, most of which are either legal or best practice – for example, obtaining gas safety certificates, and maintaining and ending tenancies legally. The scheme is open to all landlords, even individual householders taking in a lodger. The authority's environmental health department inspects all properties.

The energy element of the Quality Renting Scheme includes encouraging and promoting the topping up of loft insulation to 150 mm, insulating cavity walls and draughtstripping doors and windows. An interest-free loan scheme and supplier discounts act as additional incentives for landlords.

Advice is available for properties with poor heating or electric heating and on the availability of grants to provide more efficient systems and controls.

##### Opportunities and barriers

This innovative scheme provides an example of a solution to promoting energy efficiency as part of a wider scheme to improve the standard of rented properties in the Borough. The partnership between local authority and landlord has ensured a wide acceptance of the scheme. The scheme will be developed in conjunction with the participating landlords through the establishment of a Landlords' Forum.

As an inner-city authority, Tower Hamlets had found that demand for rented accommodation outstripped supply, so there was a natural reluctance on the part of landlords to invest in their properties. The Quality Renting approach and a package of benefits for landlords provided an effective solution.

The authority has encountered no barriers so far. This is largely because they have pitched the scheme at the right level for the target audience of landlords.

##### Status

Within two months of the scheme's launch, over 50 landlords had signed up.

##### Lessons learnt

- Keep schemes simple, as landlords do not want to be burdened with unnecessary paperwork.
- Energy efficiency can be effectively incorporated in other improvement schemes.
- Partnerships help ideas and initiatives to work successfully.

##### Contact

Housing Strategy  
London Borough of Tower Hamlets  
Great Eastern Enterprise, Block D, 3 Millharbour  
London E14 9XP. Tel: 0171 364 5000

## CASE STUDIES

## 5 IMPROVING ENERGY EFFICIENCY IN RENTED STUDENT ACCOMMODATION

**SoP****Description**

The scheme was developed as a partnership between Harper Adams Agricultural College in Shropshire, Wrekin Council, Telford Energy Efficiency Advice Centre and National Energy Action (NEA). The project was part of a demonstration scheme funded by Midlands Electricity plc.

The aim was to improve the energy efficiency of a number of rented student properties owned by private landlords. Typically, the properties targeted had poor heating systems, sometimes with obsolete and unsafe gas fires, and low standards of energy efficiency, with high winter fuel bills. This is combined with the reluctance of landlords to invest in improving the energy efficiency of their properties, and the ineligibility for grants such as HEES for students. The programme also provided safety checks on heating appliances.

Two key provisos of the project were that the landlord had to be willing to make a financial contribution towards the cost of works carried out, and that the tenants had to be responsible for their own energy use, so that they would benefit from any savings made.

Each property was surveyed to identify appropriate measures, and the ability of the landlord to pay a contribution was taken into account.

**Opportunities and barriers**

The assessment of the measures required for each property and the means testing of individual landlords to determine the contribution they could make was the most complex part of the process. Overall, the landlord contributions amounted to one-third of total expenditure. Eight percent of the funding covered the project management costs.

**Status**

The project was completed in 1996 when 37 properties providing accommodation for 155 students had been improved. Total project costs were of the order of £28 000 and total estimated annual fuel bill savings are £6700.

Other local authorities with a large stock of privately rented student properties are considering replicating the scheme.

**Contact**

NEA, Midlands Office, c/o Powerline Energy Services, Belfont Industrial Estate  
Halesowen, West Midlands B62 8DR  
Tel: 0121 585 1014

## 6 HOME ENERGY AUDITS, EXTENDED MORTGAGES AND HOME IMPROVEMENT LOANS

**SL****NATIONWIDE BUILDING SOCIETY****Description**

Between 1992 and 1994 the Nationwide Building Society offered a home energy audit through its subsidiary, Nationwide Surveyors. This was intended as an incentive for customers to trade up from the basic mortgage valuation report to the more comprehensive homebuyer's report. The home energy audit was also offered as a standalone product to mortgage customers. A secondary objective was to 'add value' to the Nationwide range of mortgage products and encourage increased uptake of home improvement loans.

Information for the energy audits was collected by Nationwide's surveyors as an additional part of the mortgage valuation survey, and analysed by one of two consultancies providing energy audit services. Customers were presented with a home energy report, which included a Standard Assessment Procedure (SAP) rating<sup>[9]</sup>, plus detail of measures that would improve the energy efficiency of the property.

**Opportunities and barriers**

Over 13 000 home energy audits were undertaken, and the scheme was partially successful in that the percentage of mortgage customers 'trading up' to a Homebuyer's Report doubled. However, the scheme coincided with another promotional offer that would also have significantly encouraged applicants to trade up to a homebuyer's report.



## CASE STUDIES

Customer take up of the home energy audits outside the scheme was negligible.

The Nationwide has also found that most home improvement loans are applied for in the second and third year of the mortgage.

#### Status

At the end of 1994 Nationwide Building Society sold Nationwide Surveyors along with its estate agency chain, at which point the scheme ceased.

#### THE HALIFAX

In a similar initiative in 1996, the Halifax found that 83% of respondents to a questionnaire issued with Energy Rating Reports stated that they were likely to want similar information on another property. Just over half said that they would be prepared to pay for the information. The Halifax also found that 13% of respondents felt that it gave them confidence to proceed with the purchase and 70% stated that they would use their own savings to pay for the suggested improvements.

#### NORWICH AND PETERBOROUGH BUILDING SOCIETY

With the aim of encouraging developers to build more energy-efficient properties, the Norwich and Peterborough Building Society has introduced a 'green' mortgage to buyers of new homes with a SAP rating of 80 or more. The scheme offers borrowers a 2% discount off the Society's standard variable mortgage rate for two years and a maximum advance of 95%. The Society now plans to launch a similar scheme for purchasers of established properties.

#### 7 GENERATOR SCHEME - NORTH CORNWALL DISTRICT COUNCIL

**UL** **Description**  
North Cornwall District Council made a successful application for a grant of £110 000 from the HECAAction programme to set up a zero-interest loan scheme for energy efficiency measures for the 'nearly poor'.

The scheme, promoted under the name 'Generator', is aimed at owner-occupier households that fall between eligibility for benefit-related grants and

#### COUNTRYWIDE SURVEYORS

Responses to questionnaires issued with Energy Rating Reports by Countrywide Surveyors between October 1995 and June 1996 indicated that 86% of respondents were likely to make energy efficiency improvements to the property in the next year or two.

#### Lessons learnt from the initiatives

- There needs to be a clear business benefit to the finance provider for any marketing activity to be undertaken.
- Mortgage providers are viewed favourably for promoting energy awareness.
- The systems in place for processing the energy data for the SAP reports were quick and did not result in delays in issuing the mortgage valuation report.
- Additional information and promotional material on the merits of energy efficiency sent to the homeowners with the energy audit report may encourage increased uptake of measures and loan finance.

#### Potential opportunities for local authorities

Local authorities working in partnership with mortgage lenders could add their endorsement to the home energy audit report, and increase motivation towards energy efficiency among home purchasers. Likewise the authority may consider financing the energy audit element of the valuation survey.

The local authority may also consider following up the energy audit report once the home purchasers have settled in.

having sufficient disposable income to fund the installation of measures without incurring financial difficulty. Thus, people who could just service a loan through regular repayments, but who otherwise would not take up measures, would be encouraged to install energy efficiency measures.

Loans at 0% APR would be offered to such householders who had a home energy survey conducted. This would identify the most appropriate energy efficiency measure(s) for an individual property. The council had intended to

## CASE STUDIES

negotiate a series of price discounts and guaranteed service levels with local suppliers and installers, which would offer further encouragement to householders to invest in energy efficiency in their own home. Around a dozen measures, including cavity wall insulation, condensing boilers, heating system upgrades and loft insulation, were included.

Each applicant was to be means-tested using the existing procedure to assess eligibility for the Housing Renovation Grant Scheme, but with the addition of incorporating mortgage payments. This effectively would identify those households with low disposable income, rather than assessing income in absolute terms.

A maximum of £1000 will be offered on the loan, which will be unsecured. Repayments will be monthly over three years, and can be made only by direct debit, which should help reduce arrears.

#### Opportunities and barriers

In setting up the scheme the council encountered a number of problems that were unforeseen when it was originally developed. One was a potential breach of the Trade Descriptions Act 1968. When agreeing a discount structure with local suppliers and installers, the council was unaware that other discount schemes existed. Some of these were national discounts, which meant the council was unable to offer the percentage discount it had intended to negotiate locally and which was linked to the offer of a 0% APR loan.

A second potential problem was the mechanism for actually administering the loan to the householder. The Consumer Credit Act 1974 requires that organisations offering loans, or introducing customers to other organisation that will offer loans, must be licensed under this Act. North Cornwall district council was licensed to carry out these actions, however, further legal investigation showed that local authorities are exempt from the need to have a licence.

Two other pieces of legislation also posed problems. The Local Government & Housing Act 1989 (Section 169) sets out what local authorities can do with respect to the provision of various services for owners or

occupiers of dwellings. However, this does not include financial assistance to individuals. The local authority can, however, give financial assistance to housing associations, charities or approved bodies to enable them to arrange, encourage or facilitate improvement works, including the offer of financial loans. Essentially, the local authority cannot have direct control over the money that they have loaned or granted to the organisation.

The Housing Act 1985 (Section 438) does not allow a local authority to offer loans at an interest rate below the standard variable rate, which prevented the Council from offering zero percentage interest loans. A solution was found by reaching an agreement with a third party organisation to administer the loan fund. The organisation chosen was Anchor Housing Association which also runs the Care & Repair agency in the area. The money has been loaned to them under a contractual arrangement.

#### Status

Due to the set-up problems no loans have been made or work done. However, over 80 households have had their homes surveyed, received an energy rating and been invited to apply for a loan.

#### Lessons learnt

- It is important to involve and enthuse other departments, for example legal and finance, at an early stage of any proposed scheme.
- It is difficult to find an appropriate organisation to administer the funds – many organisations are interested only in 'what is in it for them'.
- The development and implementation of the scheme took significantly longer than originally expected.
- There has been a surprising lack of interest from some local installers in providing discounted prices for this and other council-run schemes.

#### Contact

Housing and Environmental  
Services Department, North Cornwall District  
Council, Council Offices, Trevanion Road  
Wadebridge, Cornwall PL27 7NU  
Tel: 01208 893333



## CASE STUDIES

## 8 ENERGY SENSE - LEICESTER CITY COUNCIL

**Description**

Energy Sense is a partnership between Leicester City Council, De Montfort University, Leicester Energy Agency, Leicester Energy Efficiency Advice Centre, Energy Saving Trust, the Co-operative Bank plc, the European Union and BARNAGEL (an energy agency in Barcelona).

The project's aim is to achieve significant improvements in the energy efficiency of homes in Leicester through the development of third party financing initiatives. The project will address the problem of how to encourage people to invest their own money in energy efficiency measures, by providing the necessary framework of advice, information, standards, finance and contracting. The project also addresses 'lifestyle' issues and encourages householders to be more thoughtful in their use of energy and to consider the purchase of energy-efficient domestic appliances.

The initial funding to set up the scheme has been partly provided by the European Union and the EST. The aim is to become self-funding in the year 2000.

One of the services set up by an element of the Energy Sense project is to provide homeowners with a Home Energy Card to access a range of discounted energy-efficient goods and services at specified retailers.

Other services include:

- free home energy survey and energy schedule
- access to special rates with approved contractors
- home energy agency service where a qualified surveyor will organise and supervise major energy efficiency improvements for a small fee
- access to loan finance at favourable rates.

The loan aspect of this scheme is provided through the Co-operative Bank. Loans will be made available at a preferential rate of interest, subject to status, for energy efficiency work. Repayments can be spread over a period of up to five years on sums above £500. Staff of the Co-operative Bank who will be handling the loan enquiries have received basic training in

energy efficiency. The theory is that borrowers will repay loans from the savings in energy costs.

The scheme has been promoted widely including direct mail, media coverage and advertising. In the first phase of the project over 1000 fuel-rich homeowners were mailed with details of the scheme.

**Opportunities and barriers**

Having formed a successful partnership with the Co-operative Bank, Leicester City Council is now trying to involve other financial institutions such as mortgage companies.

Leicester City Council has faced some technical problems with the scheme. The authority had originally hoped to be able to use smart card technology to capture data such as the number and types of purchases made by each cardholder. Such technology would allow the council to build a more comprehensive picture of energy efficiency improvements in the city and would enable future marketing activities to be targeted more effectively. Unfortunately, this has proved not to be possible at present.

**Status**

The first phase of the scheme was launched in June 1997. Initial response to the mailing of 1000 homes was modest, and work has started in the first homes.

In October 1997 the second phase was launched, which included the Home Energy Card. There is an ongoing recruitment programme for retailers and suppliers to offer discounts as part of the card scheme.

**Lessons learnt**

- Launching the Energy Sense scheme in phases has enabled the Council to make it more manageable.
- The key to achieving the aims of HECA and Leicester City Council's own Energy Strategy is to motivate and encourage private homeowners to invest their own money in improving the energy efficiency of their homes. This will also change their behaviour to be more energy conscious.

**Contact**

Housing Department, Leicester City Council  
35 Rowsley Street, Leicester LE5 5JP  
Tel: 0116 273 1511

## CASE STUDIES

## 9 COVENTRY ENERGY SHOP

**Description**

The Coventry Energy Shop was launched in the autumn of 1996 and initially funded by a successful HECAAction bid.

The Energy Shop combines an energy advice centre, a network of approved installers who provide discounted services to customers, and a low-interest finance package provided by the Co-operative Bank.

Grants for up to 30% of the work, up to a maximum of £350 per household, were offered.

The Energy Shop was established as a limited company, but will be run as a self-funding, non-profit-making enterprise. The directors are drawn from Coventry City Council and National Energy Services (NES) who developed the scheme.

**Opportunities and barriers**

This project clearly shows the opportunity for encouraging private householders to invest in energy efficiency improvements by using grant and discount schemes.

Income can be generated from commissions from installers and finance companies. Opportunities may exist to gain commission from fuel suppliers if the organisation considers becoming a broker of fuel.

The barriers are that the income may be insufficient to support such an initiative without other core funding. However, authorities considering setting up an energy advice centre could offset some of the financial burden by following some of the ideas demonstrated in this initiative.

**Status**

The Energy Shop has been highly successful in its launch. Over 1100 households have received energy advice; 791 grants have been awarded, which comprised 569 cavity wall insulation jobs, 159 loft insulations and 63 condensing boiler and heating control installations. On average the grant funding given to each property was £139.

The Energy Shop is currently in the process of developing a strategy to become financially sustainable once the HECAAction money has been exhausted.

**Lessons learnt**

- Installers should be assessed to ensure they are suitable. In this case study one installer was more used to working on larger contracts, while the other had more experience in undertaking private work for individual householders. This caused problems in administration and in communications with the clients.
- Initial dependence on grant funding can lead to difficulties in achieving financial sustainability.

**Contact**

Coventry Energy Shop Ltd, 57 Riley Square, Coventry CV2 1LY. Tel: 01203 684442

## 10 REDDITCH BOROUGH COUNCIL

**Description**

Redditch Credit Union, an existing credit union, set up a scheme that aimed to provide low-interest finance to members for energy efficiency measures.

Consultation among council members, the credit union management committee, council officers and a local insulation installer, CosyCoat

Insulation Limited, ensured maximum commitment to the success of the scheme.

HECAAction awarded the scheme a grant of £25 000 which was used as the capital fund for the loans. The scheme was promoted by advertising in the local paper (part-funded by CosyCoat), and by leaflets.

The key target group is individuals in receipt of state benefits or aged over 60 and on state pension, living in either privately owned or rented accommodation. Measures available under the



## CASE STUDIES

scheme were restricted to loft insulation and cavity wall insulation. The loans offered were unsecured and an extremely attractive interest rate of 6.3% APR was offered. (Normal interest rates through the credit union were 12.0% APR.) The loan could be repaid on a monthly basis over a period of between six and 24 months. Simple credit checks were undertaken on those householders applying for a loan, including a check on Council Tax payments, and whether the applicant had been the subject of a County Court judgement.

All borrowers within the scheme had to be members of the Credit Union, and an additional success was that over 30 new members joined the Credit Union in the first three months of the scheme. Regulations affecting credit unions stipulate that all members who borrow must also save with the credit union. This, together with the repayments of the loan plus interest, ensures that the capital funds available for future lending increase, thus making the scheme financially sustainable. Before making a loan to a member, the credit union will normally expect the borrower to have saved with the union for a certain period.

Loans are then offered up to a maximum that is calculated as a multiple of the amount saved – normally a multiple of three is used. With the HECAAction grant of £25 000, Redditch credit unions were able to waive this condition for members who wished to use the loan for energy efficiency improvements.

Although there is nothing to stop credit unions making loans for energy efficiency improvements, the scheme would be replicable in this form only if external funds were provided. This route could be used by local authorities for making low-interest loans for energy efficiency as the local authority has the power to grant-fund the initial capital finance required, as credit unions are voluntary organisations. Alternatively, authorities could encourage third party organisations to do so.

#### Opportunities and barriers

One barrier encountered, which was not envisaged, was reluctance by the over-60s to take out a loan for works.

The original aim was to link the loan scheme through credit unions with the bulk discount scheme for insulation measures developed in partnership with CosyCoat Insulation. However, linking the two schemes (Redditch Credit Union and CosyCoat) so that loans from the credit unions would be used to purchase measures under the discount scheme would have required the credit unions to apply for a licence under the Consumer Credit Act 1974. As credit unions do not normally have a direct relationship or link with any product or service their members may be taking a loan out to purchase, they are generally exempt from the regulations within the Consumer Credit Act. The potential problem was resolved by separating the two schemes. However, credit union members who took out a loan for energy efficiency improvements, and in theory could use any installer, tended to use CosyCoat because the discount the Council had negotiated offered the lowest prices.

#### Status

The scheme began operating in January 1997 and is still actively being promoted. Because the partners established their commitment at the initial development stage, the scheme took only a few weeks to get up and running. In the first three months of operation over £12 000 was loaned to 40 householders, with the vast majority of loans being used to finance cavity wall insulation and a smaller number to finance loft insulation.

The first few months of the scheme have proved to be very successful, and those involved with it feel that it will be sustainable over a long period.

#### Lessons learnt

- The reluctance on the part of the over-60s to take up loans for energy efficiency measures has suggested that a different approach may have been more effective in encouraging this group to become more involved in the scheme.

#### Contact

Environmental Services Department or Economic Development Unit, Redditch Borough Council, Town Hall, Alcester Street, Redditch, Worcestershire B98 8AH  
Tel: 01527 64252

## CASE STUDIES

## 11 LEEP – CREDIT UNION LOANS FOR CFLs

**Description**

This small project was developed by the Lothian and Edinburgh Environmental Partnership (LEEP), working with the Lothian Region Credit Union Development Agency, to set up a loan scheme for CFLs with a number of existing and potential credit unions in Edinburgh and the surrounding area.

Participating credit unions agreed to provide loans to their membership for the purchase of CFLs. The participating credit unions also distributed information to their membership promoting these loans and a retail service run by LEEP. LEEP had made a bulk purchase of CFLs and passed the price discounts to the credit union members.

The scheme offered a range of CFLs with different types of fitting and wattage. From earlier monitoring research, LEEP had identified that it was important to demonstrate the CFLs in the home for maximum cost-effectiveness. This allowed the potential purchaser the opportunity to try various options of style and wattage, ensuring a high level of customer satisfaction and utilisation of the lamps. This also helped achieve one of the original objectives of the scheme, which was to ensure that repayments on the loans would be more than offset by electricity savings from the beginning.

The credit unions also felt it appropriate to market loans for other reasons, so that where a member took out a loan for another purpose such as a holiday, they would also be encouraged to take out a slightly larger loan in order to purchase CFLs. As the CFLs would save the borrower money, their ability to repay the entire loan would be increased.

**Opportunities and barriers**

This was a small project dealing with a fairly low volume of loans. The same approach could be extended to cover the purchase price of larger energy efficiency appliances, products and services. The credit unions were keen to support this scheme for a number of reasons:

- energy efficiency helps their 'green' credentials
- it is a simple and effective add-on to their existing credit union services
- it helps members save money
- there are some tax advantages for credit unions from encouraging a constant pattern of loans, albeit small amounts, to reduce the amounts on deposit
- it was seen to reduce the seasonal nature of loan take-up, which peaks at Christmas and during holiday periods.

**Status**

The scheme successfully provided CFLs to several hundred credit union members.

The service is being continued on an 'ad hoc' basis without any publicity, as LEEP no longer provide staff resources to work with client groups.

**Lessons learnt**

- The concept works well but does need considerable development and preparation time to succeed,
- A wider range of energy efficiency services may be more appropriate, and justify the provision of staffing resources.

**Contact**

Lothian and Edinburgh Environmental Partnership  
Bonnington Mill Business Centre  
72 Newhaven Road  
Edinburgh EH6 5QG  
Tel: 0131 555 4010



## CASE STUDIES

## 12 TINCKNELL FUELS LTD - AN EXISTING ESCO

**Description**

Tincknell Fuels Ltd is an independent, family-owned company based in Somerset whose core business is acting as regional distributor for Shell Oil in the West Country.

For its domestic customers Tincknell Fuels offers a range of other products and services in addition to the supply of oil. This includes: boilers meeting the requirements of the European Efficiency Directive; the design, installation and upgrade of oil-fired central heating systems and controls, including TRVs; boiler and central heating maintenance; home energy surveys through MVM Starpoint; energy efficiency advice literature; and a comprehensive finance package which includes budget payment schemes, insurance schemes and interest-free credit for specified periods.

Tincknell Fuels has also set up a subsidiary company, Gas West Ltd, to supply gas to domestic customers in the South West, further enhancing the group's existence as an ESCO.

**Opportunities and barriers**

Once the gas and electricity markets fully deregulate, new second-tier suppliers, particularly those with a local or regional presence, could be encouraged to use such models for their own expansion.

**Status**

Tincknell Fuels is continuing to develop its range of services for its domestic oil customers, including energy efficiency services. It currently has central heating service contracts with over 10 000 customers.

Its recent expansion into gas supply is indicative of its development plans.

**Contact**

The Tincknell Group, Glastonbury Road, Wells, Somerset BA5 1TQ. Tel: 01749 673661

## 13 THE SOLAR CLUB - A RENEWABLE ESCO

**Description**

The Solar Club project is a new initiative to help householders install their own solar water heating systems. The pilot was launched in Bristol and Leicester on June 16th 1997 coinciding with the international 'Sun Day'.

The Solar Club concept is about making solar water heating more cost-effective and generally accessible by enabling interested householders to:

- install solar collectors on a DIY basis and support each other by sharing skills, labour, tools and equipment
- have access to professional technical support

- pool their purchasing power to buy equipment at bulk discounts
- have access to a finance package to facilitate bulk purchase.

The project will test and evaluate the most effective means of setting up Solar Clubs. Members will play a major role in running the clubs. The Solar Club concept can be seen as a way of harnessing the general public's support for renewable energy to achieve energy savings and reduce emissions of polluting gases. It is envisaged that the project should operate in the context of the Local Agenda 21 initiatives in Bristol and Leicester.

The Centre for Sustainable Energy (CSE) in Bristol is acting as lead organisation and project managers for the programme.

## CASE STUDIES

Members of the Solar Trade Association support the initiative. Triodos Bank has agreed to be the financial adviser to the project. Current financial support has come from the DETR's Environmental Action Fund.

### Opportunities and barriers

The barriers to the development of solar water heating are:

- capital cost
- lack of information and, within the DIY sector, a lack of understanding of how to apply basic skills in a new context and the need for professional expertise to oversee installation.

The project offers the opportunity to test out approaches to help householders overcome these barriers and increase the use of solar power to meet our basic needs for hot water.

There have been articles in trade journals, which have led to many enquiries from organisations all over the UK who are interested in the Solar Club concept.

### Status

The launch saw much press coverage in the pilot areas including mini-documentaries on local television in both cities. There were over 400 initial enquirers, all of whom were sent further information. At the end of 1997 the project was on course to reach its target of 30 installations in its first year of operation.

### Lessons learnt

- Keep the administration as simple as possible. This makes the process easier to handle and will help keep the costs down.
- Involve people of all ages, sexes and classes who feel empowered by the opportunity to become involved in this innovative project.
- Attract interest from the right audience. This will encourage individuals to invest their own money and avoid using the available loan facility.

### Contact

Centre for Sustainable Energy  
The Create Centre, B-Bond Warehouse, Smeaton Road, Bristol BS1 6XN. Tel: 0117 929 9950

## 14 FRIDGESAVERS – NATIONAL SoP SCHEME



### Description

Fridgesavers is a national scheme developed and managed by Lothian and Edinburgh Environmental Partnership (LEEP).

The scheme is targeted at low-income households to provide them with efficient fridges to replace old and inefficient models. The old fridge must belong to the householder, and it must be a fridge with an integral icebox. In addition, the householder has to be in receipt of one or more of nine qualifying benefits.

The householder applies for a new fridge by completing a standard application form, which includes details about their existing fridge. The content of the questionnaire is based on several years of appliance-based research carried out by LEEP.

If the householder and their fridge qualify for the scheme, a national carrier is instructed to arrange for delivery and installation of a new fridge and take away the old fridge. The old fridge is disposed of with the appropriate recycling of CFCs. In this way the project also significantly improves the nature of the second-hand fridge market by taking these very inefficient models away from potential reuse.

The householder has to make a contribution of only £25 to the cost of the new fridge, which they should recoup in the first year of using their new efficient appliance because of resultant reductions in their electricity bills.

The overall cost of providing these new appliances has been significantly reduced by a bulk purchasing arrangement through public tendering, by which 25 000 fridges were purchased initially, reducing the unit cost considerably from the normal retail cost of £120.



## CASE STUDIES

**Opportunities and barriers**

In some instances the householder contribution is being met from other sources, for example where some social landlords are paying the £25 contribution for their tenants who qualify for the scheme. The modest householder contribution could also be obtained as a loan from a credit union.

This scheme, targeted as it is on low-income households, is very relevant to the requirements of HECA to address the 'personal circumstances' of householders. Fridgesavers' estimates, based on monitored samples, demonstrate that households should save at least £30 a year on their electricity bills.

**Status**

The Fridgesavers scheme was launched nationally in September 1997 after successful pilots in Edinburgh and London. The scheme was initially promoted through regional seminars held in each public electricity supplier (PES) area. The initial target was to distribute 25 000 fridges by March 1998. Early indications are that the scheme will be oversubscribed and an extension of the scheme is expected. Several of the participating regional

electricity companies have expressed an interest in expanding the scheme in their areas.

**Lessons learnt**

- Fridgesavers has demonstrated that it is possible to assess the efficiency of appliances remotely, by involving the applicant in the process.
- Volume purchasing has brought down the unit cost of these appliances, and has also enabled a flat charge to be negotiated with a national carrier so that the costs are the same irrespective of where the applicant lives in mainland Britain. Separate arrangements are being set up for residents of island locations, particularly in Scotland, though these rely on partnerships with local shipping companies, and economies of scale will be achieved only by providing appliances in containerloads.

**Contact**

Lothian and Edinburgh Environmental Partnership  
Bonnington Mill Business Centre  
72 Newhaven Road, Edinburgh EH6 5QG  
Tel: 0131 555 4010

**15 SWALEC - DISCOUNTED  
AUTOMATIC CHARGE CONTROLS**
**Description**

As part of its Standards of Performance (SoP) programme, SWALEC ran a discount promotion in a rural area of mid-Wales to install automatic charge controls for electric storage heaters. The model controls are expected to save 15% of the electricity used for heating. The normal price for such an installation is between £150 and £200. During the SoP scheme the price was discounted to £99, and was installed free if the householder was on a means-tested benefit. Responses were followed up by contractors.

The scheme was extended for a second year, with the price being reduced to £49, and follow-up calls being undertaken by advice staff rather than

contractors. This phase of the scheme targeted a rural area in west Wales.

**Opportunities and barriers**

Although during the first year of this scheme the initial response from the public was very high, the subsequent conversion into installations was much lower. In an attempt to overcome this, the unit price was reduced and follow-up calls were undertaken by advice staff, rather than contractors.

Feedback from customers of the scheme has indicated that the charge control units are working effectively and have a positive influence in helping householders achieve energy savings.

**Status**

The first scheme ran during the winter of 1995/96, and the second scheme ran during 1996/97. In

## CASE STUDIES

both cases the scheme was only promoted in fairly small rural areas, yet on both occasions the scheme was oversubscribed. In the pilot scheme over 50 control units were installed, and in the second scheme over 100 installations were made.

**Lessons learnt**

- The pilot scheme identified the opportunity to reduce the price to the householder through using a lower specification relay in the control than had originally been planned.
- The scheme also demonstrated that the contractor could install the control units more

quickly and cheaply than originally thought. This enabled SWALEC to reduce the price in the second scheme.

- In the pilot area there were fewer contractors available to install the units than in the second area. This also had the effect of helping to reduce costs in the second scheme.
- Response increased significantly when SWALEC took the responsibility for follow-up sales calls.

**Contact**

SWALEC, Newport Road, St. Mellons  
Cardiff CF3 9XW. Tel: 01222 773904

#### 16 ENERGY EFFICIENCY HOMES DEMONSTRATION PROJECT - NORTHERN IRELAND HOUSING EXECUTIVE

**Description**

The initiative is based on the concept that householder expenditure on a range of energy efficiency measures can be paid for by an extra charge on the electricity bill. Payments can then be made over a period of time.

Measures available under the scheme include heating systems, insulation, energy-efficient appliances and CFLs. The initial funding for the energy efficiency measures is provided by Northern Ireland Electricity (NIE) and the amount is included on the customer's fuel bill. The customer then repays the outstanding amount over an agreed time period.

A demonstration scheme has been part-funded under the HECAAction programme: 24 dwellings of various types and tenures have had efficiency measures installed, including four being connected to gas, which is a new fuel in Northern Ireland. Energy ratings were established before the measures were installed and then revised to include the new measures.

**Opportunities and barriers**

The approach is a useful concept for ESCOs, where the total integration of fuel supply and energy

services provides significant marketing and customer retention opportunities.

The main barrier to extending this scheme on to the mainland will be getting clarification about the regulations from OFFER and OFGAS.

**Status**

The trial phase has shown that the installed energy efficiency packages have been effective. Certain regulatory issues have also been resolved, in particular the issue as to whether NIE could provide financial services to its customers.

However, during the initial trials no repayments were made by customers and so the next stage is to pilot the scheme over an entire district council area, which will include repayments.

**Lessons learnt**

Regulatory problems can be resolved making schemes of this nature possible.

**Contact**

Energy Conservation Unit  
Northern Ireland Housing Executive  
2 Adelaide Street  
Belfast BT2 8PB.  
Tel: 01232 318525



## CASE STUDIES

## 17 BAYWIND ENERGY CO-OPERATIVE

**Description****C**

The Baywind Energy

Co-operative was set up in

Cumbria with the aim of encouraging community participation in renewable energy technologies. The idea of developing cooperative investment in energy is common in Scandinavian countries.

A Swedish company established a British subsidiary, the Wind Company, in 1994. The aim was to establish the UK's first cooperatively owned wind farm. A site was found at Harlock Hill on the Furness Peninsula in Cumbria. Planning permission followed and a Non-Fossil Fuel Obligation (NFFO) contract was awarded.

The financing of the project is of particular interest. The Wind Company raised the initial capital investment to ensure that the wind turbines would be built. The Baywind Energy Co-operative will buy individual turbines from the Wind Company as sufficient money is raised from individual investors.

Investors can buy shares in the Co-operative from a minimum investment of £300 to a maximum investment of £20 000 allowed under cooperative rules. A special savings scheme was set up with a bank to enable potential investors to save up the required investment. Investments over £500 are eligible for tax relief under the Enterprise Investment Scheme. The expected return on investment is 8%, and the dividend is payable in cash, or via a reduction in the electricity bill for investors who are also NORWEB customers. In addition, a fund amounting to 0.5% of the total investment income has been set up to provide energy conservation initiatives to the local community.

**Opportunities and barriers**

The cooperative investment model could be used for other renewable energy and energy efficiency projects, and provides an innovative mechanism for community involvement.

Local support has proved to be an important factor in the success of the project, with over 70% of investment coming from Cumbria.

Community involvement has also led to positive attitudes towards the development of wind farms, and the project has significant educational value because of this involvement. Local companies benefited by being awarded much of the construction work, thus further contributing towards local economic development. Baywind is now seeking to develop energy efficiency schemes for its members.

**Status**

The first wind turbine was financed and became operational in February 1997. A second turbine was subsequently bought in June 1997. Over £1.2 million has been raised from over 1000 members.

**Lessons to be learnt**

- Cooperative developments encourage community involvement and local interest and are likely to result in more positive attitudes than developments that are imposed without consultation or agreement of the community.
- The average investment was £900-£1000, which was significantly greater than expected, and demonstrates the investment potential of individual members of the public.
- The project found that there was some confusion about the difference between a share in a cooperative and a share in a limited company, and felt this may have deterred some potential investors.
- A developer-led project is one of the best ways of ensuring a sound base for a cooperative development.

**Contact**

Baywind Energy Co-operative Limited  
Unit 29, Trinity Enterprise Centre  
Furness Business Park, Barrow in Furness  
Cumbria LA14 2PN  
Tel: 01229 821028. Fax: 01229 821104

## CASE STUDIES

**18 WISE GROUP - INTERMEDIATE LABOUR MARKET****ILM****Description**

The Wise Group is a Glasgow-based organisation that has pioneered the concept of the Intermediate Labour Market since 1983. The Intermediate Labour Market gives unemployed people a route back to work by providing the chance to receive training, work experience and a living wage while working on socially useful projects in a commercial environment. Its aim is to bridge the gap from long-term unemployment to the job market, while paying the real rate for the job.

The group comprises three main subsidiaries: Heatwise, Landwise and WiseStart. It has also developed the concept in East London through Newhamwise, and is currently working with other organisations setting up similar initiatives, for example in Sunderland and Derby.

The group receives funds from the commercial insulation and environmental reclamation work it carries out; from business sponsors; from local and national government grants, for example the Single Regeneration Budget in England and Priority Partnership Areas in Scotland; and grants from the European Social Fund.

**Opportunities and barriers**

Local authorities could use the Wise model to initiate similar projects locally, possibly working with local training and employment providers, such as TECs.

Alternatively, the authority could work with local insulation installers to encourage them to employ local unemployed people. The authority may have

a particularly strong argument where they are administering either European or Government funding.

A barrier may be the need for such a scheme to find start-up finance.

**Status**

The Wise Group had a turnover of over £14.5 million in 1996. In that year over 3200 homes were insulated; 7500 advice visits carried out; £10.6 million in local economic activity was generated from a local authority investment of £3.8 million; over 1000 people employed on the various schemes; and over 500 people gained full-time jobs.

Studies have estimated that it costs approximately £9000 per year to keep someone unemployed, while it costs some £14 000 to train someone with the Wise Group.

**Lessons learnt**

- There are indirect methods of providing financing and resources for energy efficiency improvements that draw on funds not directly earmarked for energy efficiency.
- The Wise model is easily replicable, as has been demonstrated in a number of projects around the UK.
- In addition to providing energy efficiency improvements, the Intermediate Labour Market can also have significant local effects at both a social and economic level.

**Contact**

The Wise Group  
72 Charlotte Street, Glasgow G1 5DW  
Tel: 0141 303 3131



## 10 SUMMARY OF RELEVANT LEGISLATION

References to relevant legislation are to the provisions as amended and in force on 1 February 1998. This is, necessarily, a summary and readers should refer to the full text of the statutory provisions for more detail.

The Local Government (Contracts) Act 1997 gives local authorities new general powers to contract with any person or organisation for the provision of services, equipment or assets. They must be provided for the purposes of, or in connection with, the discharge of one of the local authority's functions. This new general power will apply to many of the specific powers available to local authorities described below.

#### 10.1 POWERS TO REQUIRE IMPROVEMENTS TO PRIVATE SECTOR HOUSING STOCK

Local authorities have a number of powers available to them to require action to improve private housing (including housing owned by registered social landlords). These powers do not specifically authorise authorities to require improvements in energy efficiency but can relate to heating and thermal insulation.

##### 10.1.1 Dwellings that are unfit

Among other reasons, a dwelling house may be unfit because it lacks adequate facilities for the provision of heating or because it is not free from dampness that is prejudicial to health (see Housing Act 1985 section 604).

Under section 189 of the Housing Act 1985 or section 81 of the Housing Grants, Construction and Regeneration Act 1996, where a local authority is satisfied that a dwelling house, or a house in multiple occupation (HMO), is unfit for human habitation they may serve a repair notice or a deferred action notice. These set out the works the authority considers are required to make the property fit and can include improvements, eg thermal insulation, heating systems, etc (section 189).

##### 10.1.2 Dwellings that are prejudicial to health

Under the Environmental Protection Act 1990 (section 80), a local authority may serve an

abatement notice when it is satisfied that a statutory nuisance exists or is likely to occur or recur. The definition of statutory nuisance includes premises that are prejudicial to health, eg because of dampness caused by inadequate heating or lack of thermal insulation (section 79).

An abatement notice sets out the steps required to ensure the premises are no longer prejudicial to health. This can include installation of heating and thermal insulation.

#### 10.2 LOANS AND GRANTS TO FINANCE ENERGY EFFICIENCY

##### 10.2.1 Powers to provide grants (Housing Grants, Construction and Regeneration Act 1996)

There are a number of grants available to owners and occupants. The award of all grants, except certain disabled facilities grants, is discretionary. Purposes for which grants are awarded include installing thermal insulation and space heating. The works that are eligible for renovation, HMO and disabled facilities grants are set out in the statute. Grants to owner-occupiers and tenants are means tested under a statutory means test (section 30). The local authority can use its own criteria to determine the amounts payable to landlords (section 31). Tenants are generally not eligible for any grants except disabled facilities grants (sections 9 and 22)

##### Renovation Grants (section 12)

Renovation grants are provided for the improvement or repair of dwellings. The categories of works that are eligible for the grants are set out in section 12 of the Act. They include works required to:

- make a dwelling fit for human habitation
- provide adequate thermal insulation
- provide adequate space heating.

##### HMO grants (section 27)

These are provided for similar purposes to renovation grants, but for HMOs rather than single dwellings.

## SUMMARY OF RELEVANT LEGISLATION

**Disabled facilities grants (section 23)**

Disabled facilities grants are available to provide facilities for a disabled person living in a dwelling. The categories of works that are eligible for the grants are set out in section 23 of the Act. They include works required to:

- improve a heating system to meet the needs of a disabled occupant
- provide a heating system if there is none
- replace a heating system if the existing one is unsuitable.

**10.2.2 Powers to provide Home Repair Assistance in the form of a grant (Housing Grants, Construction and Regeneration Act 1996 section 76)**

Under the provisions for Home Repair Assistance, an authority can choose which works it wishes to fund. It could, therefore, decide that a certain amount of its budget is only available for the installation of energy efficiency measures. Home Repair Assistance can be provided in the form of a grant or by the provision of materials for carrying out repairs, improvements or adaptations to a dwelling. Assistance can only be provided to qualifying people.

The maximum assistance that can be provided is £2000 but two applications can be made within a three-year period and could be made at the same time (The Disabled Facilities Grants and Home Repair Assistance (Maximum Amounts) Order 1996).

The recipient of the assistance must live in the dwelling as his or her only or main residence. However, if the materials are to adapt a dwelling for an elderly, disabled, or infirm person, it is only necessary that they are proposing to make the dwelling their only or main residence when it is suitable. The applicant may be a tenant of a private landlord or a registered social landlord or an owner. A tenant must have power to carry out the works (section 77).

Applicants must be receiving income support, family credit, housing benefit, council tax benefit, or disability living allowance, or the application must be for the benefit of a person who is elderly, disabled, or infirm (section 77).

**10.2.3 Powers to provide secured loans or to guarantee loans (Housing Act 1985 sections 435-442)**

Local authorities have powers to provide loans to enable a person to repair or improve a house or to repay a previous loan provided for the purchase or improvement of a house. Such a loan can be provided in addition to any other financial assistance that the authority is providing (section 435(4)). They also have powers to guarantee loans for these purposes (section 442).

The loan must be secured by a mortgage on the freehold or a leasehold with interest exceeding 10 years and interest must be charged (sections 436, 438 and schedule 16). However, there are provisions enabling the authority to obtain approval from the Secretary of State for a scheme that enables payments due to be waived or interest to be reduced (section 441). The loan cannot be more than the value of the security.

The effect of the requirement that the loan must be secured is that this form of loan is not available to tenants of private landlords or registered social landlords.

**10.2.4 Powers to provide financial assistance for privately let housing accommodation (Local Government Act 1988 section 24)**

Local authorities have powers to provide any person with financial assistance for the purposes of, or in connection with the conversion, rehabilitation, improvement, maintenance, or management of any property which is intended to be privately let as housing accommodation. Privately let accommodation includes accommodation provided by registered social landlords. Local authorities can make a grant or a loan, or provide a guarantee for a loan, which can be made to either tenants or landlords.

Use of the power is subject to the Secretary of State's consent (section 25). The Secretary of State has powers to issue consents for a particular case, to particular local authorities, to categories of cases or as general consents applying to all authorities. Consent could therefore be given in principle to a local



## SUMMARY OF RELEVANT LEGISLATION

authority to provide interest-free loans for improvements to the energy efficiency of a dwelling.

General consents have been issued. Those consents relevant to energy efficiency authorise:

- local authorities to lend money to registered social landlords in connection with the carrying out of rehabilitation, or improvement of housing accommodation
- local authorities to provide small amounts of financial assistance or gratuitous benefit to private landlords. The total that can be provided in a financial year is limited to £1.35 per head of the population. No assistance can be provided in addition to a housing grant.

Gratuitous benefit would include the provision of materials at less than the cost.

**10.2.5 Powers to incur expenditure for purposes not otherwise authorised (Local Government Act 1972 section 137).**

(See para. 10.3.4)

This power cannot be used for any of the purposes referred to in section 24 of the Local Government Act 1988 (see para. 10.2.4). It could, however, be used to provide grants or loans for an appliance, eg by grant aiding an organisation which operates a revolving fund for loans, or by funding a credit union.

**10.2.6 Restrictions on providing credit facilities (Consumer Credit Act 1974)**

The Act requires that organisations providing credit facilities covered by the Act must be licensed. Local authorities are exempt (section 21).

**10.3 PROVIDING ENERGY EFFICIENCY SERVICES AND MATERIALS TO THE PRIVATE SECTOR**

There are a number of statutory powers authorising local authorities to provide energy efficiency services and materials to owner-occupiers, landlords (including registered social landlords) or tenants in the private housing sector.

**10.3.1 Powers to provide services to owners and occupiers (Local Government and Housing Act 1989 section 169)**

Local authorities have powers to provide professional, technical, and administrative services

for owners or occupiers of dwellings in connection with their arranging or carrying out certain works.

The services do not have to be restricted to owners and occupiers who are financially eligible for grants, nor to those who have applied for grants. The authority can also provide services to encourage or facilitate the carrying out of the works.

The works which qualify are as follows:

- *Works to make a dwelling fit for human habitation.* Among other reasons, a dwelling may be unfit because it does not have provision for adequate facilities for heating or because it is not free from dampness which is prejudicial to health (see Housing Act 1985 section 604) as amended by part V of schedule 9 to the 1989 Act. Works to make a dwelling fit may therefore include provision for adequate heating. They may include heating and insulation if dampness is caused by inadequate insulation.
- *Works that would qualify for a disabled facilities grant.* These works are defined in the Housing Grants, Construction and Regeneration Act 1996 section 23. They include works to improve an existing heating system to meet the needs of a disabled person or to provide a heating system if the existing one is unsuitable, or no system is available.
- *Works that would qualify for a renovation or HMO grant.* These works are defined in the Housing Grants, Construction and Regeneration Act 1996 sections 12 and 27. They include works to provide adequate thermal insulation or adequate facilities for space heating.
- *Works in relation to Home Repair Assistance.* These works are defined in the Housing Grants, Construction and Regeneration Act 1996 section 76 as any works of repair, improvement or adaptation.

The local authority must decide whether they wish to charge for the services and must take reasonable measures to collect any contributions due.

## SUMMARY OF RELEVANT LEGISLATION

**10.3.2 Powers to fund services to owners and occupiers by other organisations (Local Government and Housing Act 1989 section 169)**

Section 169 authorises local authorities to give financial assistance to registered social landlords, charities and other bodies approved by the Secretary of State to enable them to provide services to owners or occupiers. This provision is typically used to support housing associations who help individuals carry out repairs, improvements and adaptations to their homes and who can also often advise on energy efficiency matters.

Section 169 also allows the Government to defray costs incurred by local authorities on other bodies in respect of home improvement services.

The local authority must take account of the extent to which the organisation will charge the public for their services and any other sources of finance available to the organisation.

**10.3.3 Powers to provide information (Local Government Act 1972 section 142)**

This provision enables a local authority to make arrangements for the public to be able to obtain information about services available locally from the local authority, government departments and charities and other voluntary organisations.

It does not enable the authority to provide information about services available from the private sector. Where information services involve publicity (eg promotional material) then the cost must be included in the financial limit for expenditure under section 137 of the 1972 Act (see para. 10.3.4).

**10.3.4 Powers to incur expenditure for purposes not otherwise authorised (Local Government Act 1972 section 137)**

This provision enables a local authority to incur expenditure on any activity that is not otherwise authorised if they are of the opinion that it is in the interests of, and will bring direct benefit to, their area, or any part of it, or all or some of its inhabitants. The power cannot be used for any purposes authorised or required to be made by any other statutory provision.

Expenditure on publicity cannot be incurred directly but only by way of assistance to another public body or a voluntary organisation. Expenditure on other services can be for direct provision of services by the authority, eg providing advice or by providing funds to any public body, charity or voluntary organisation. There is a financial limit on the amount that can be spent under this provision each year based on the population of the authority's area. Expenditure on publicity under section 142 of the 1972 Act (see para. 10.3.3) must be included in this limit.

**10.3.5 Powers to financially support housing associations and registered social landlords (Housing Associations Act 1985 section 58 and Housing Act 1996 section 22)**

Where a registered social landlord or an unregistered housing association has powers to provide advice services, these provisions authorise local authorities to provide financial assistance to enable the landlord to provide advice. A local authority can also promote the setting up of a new organisation.

Unregistered housing associations are non-profit-making bodies where the principal objectives include providing, improving or managing housing (Housing Associations Act 1985 section 1). A local authority can subscribe for loan or share capital or lend money to these housing associations but cannot make a grant.

Local authorities can provide loans or grants to registered social landlords or guarantee loans obtained by them.

**10.3.6 Powers to provide consumer advice (Weights and Measures Act 1985 section 69)**

Under this Act, housing authorities which are unitary authorities, and therefore have responsibilities as Weights and Measures authorities, may make, or assist in making arrangements to provide advice to, or for, the benefit of consumers of goods and services in their area.

**10.3.7 Incidental powers (Local Government Act 1972 section 111)**

Section 111 of the 1972 Act authorises a local authority to do anything which is calculated to



## SUMMARY OF RELEVANT LEGISLATION

facilitate, or is conducive or incidental to the discharge of its functions. The Home Energy Conservation Act 1995 requires housing authorities (energy conservation authorities) to prepare energy conservation reports which identify conservation measures including advice and information (section 2). The Secretary of State can notify the authority of the timetable within which the authority must report on progress on implementing the measures and encouraging others to assist with those measures (section 3). The Act does not give specific powers to local authorities to implement the measures identified unless they have powers to do so under other statutes.

#### 10.3.8 Restrictions on providing advice

The Consumer Credit Act 1974 requires that most organisations which are credit broking (ie setting up credit arrangements for others) must be licensed under the Act. Local authorities are exempt from registration (sections 21 and 147).

The Financial Services Act 1986 requires that organisations which engage in investment business must be authorised under the Act unless exempt (section 3). Local authorities are not exempt from authorisation.

Investment business includes arranging investment deals or giving investment advice. Advice on life insurance connected to a mortgage securing a loan or arranging life insurance will be investment business.

#### 10.3.9 Powers to provide Home Repair Assistance in the form of materials (Housing Grants, Construction and Regeneration Act 1996 section 76). (See para. 10.2.2)

Home Repair Assistance can be provided in the form of the provision of materials.

#### 10.3.10 Powers to sell or supply furniture under hire purchase to occupants of housing provided by registered social landlords (Housing Act 1996 section 22)

This provision enables local authorities to sell or supply furniture on hire purchase to occupants of housing provided by registered social landlords. Furniture can include gas and electrical appliances.

#### 10.3.11 Powers to carry out works to private housing (Housing Grants, Construction and Regeneration Act 1996 section 57)

This provision authorises local authorities to carry out any works which would be eligible for a housing grant and any further works which it is necessary or desirable to carry out at the same time if they have the permission of the owner or leaseholder.

The works must be paid for by the owner or leaseholders.

#### 10.3.12 Powers to provide services to registered social landlords (Local Authorities (Goods and Services) Act 1970)

The Act authorises a local authority to enter into an agreement with a public body for:

- the supply of goods and materials
- the provision of administrative, professional or technical services
- the use of apparatus or equipment
- the carrying out of maintenance on any land for which the public body is responsible (section 1).

A registered social landlord is a public body for these purposes (The Local Authorities (Goods and Services) (Public Bodies) Order 1975 Statutory Instrument 193).

### 10.4 THE ROLE OF A LOCAL AUTHORITY IN A COMPANY

#### 10.4.1 Powers to participate in companies

There are no specific powers authorising local authorities to establish or support, or participate in a company established to promote energy efficiency, eg an ESCO.

#### Powers to support formation of a registered social landlord. (See para. 10.3.5)

Local authorities can hold share capital in unregistered housing associations (including companies limited by guarantee) and registered social landlords.

#### Powers to promote economic development

Under section 33 of the Local Government and

## SUMMARY OF RELEVANT LEGISLATION

Housing Act 1989, local authorities have powers to promote economic development. This includes powers to participate in, and the provision of, financial and other assistance for:

- the setting up of any commercial, industrial or public undertaking in the authority's area or expansion which will increase employment opportunities in the area
- the creation or protection of opportunities for employment in their area.

The local authority may take shares in the undertaking alone or jointly with others, eg in a joint venture company. There are some restrictions on the types of activities in which local authorities may become involved (Local Government (Promotion of Economic Development) Regulations 1990 Statutory Instrument 763 as amended). Relevant restrictions provide that the local authority cannot use this provision to authorise the following activities by the authority:

- purchase of goods for resale or hiring
- sale or hiring of goods as agent for another person
- acquisition of services for supply to others
- supply of services as agent of another person.

This does not prevent a local authority participating in a company that carries out these activities, eg a company set up to obtain bulk purchase discounts.

The powers available under section 33, supplemented by the ancillary powers in the Local Government Act 1972 section 111 (see para. 10.3.7) provide considerable scope for participation in companies.

#### 10.4.2 Controls on participation in companies

The Local Government and Housing Act 1989 controls local authorities' interests in companies and industrial and provident societies (eg housing associations). The text below applies to both types of organisation unless otherwise stated.

##### Regulated companies

Only some companies are regulated under the Act. Local authorities must use any influence or control they have to ensure that regulated companies comply with certain requirements contained in regulations 4-18 of the Local Authorities

Companies Order 1996 Statutory Instrument 849. Significant requirements are that:

- a regulated company must provide financial information to the local authority's auditors
- a regulated company must reply to requests for information about their work from individual councillors of the local authority (subject to the normal rules of confidentiality).

However, the most important effect for the local authority is that capital transactions of a regulated company, including borrowing by the company, are effectively treated as if they were done by the authority.

There are two types of regulated company:

- a controlled company
- a regulated local authority influenced company (also known as a public sector influenced company).

The category a company may fall into is measured each financial year.

##### Controlled companies (section 68)

This is a company where either directly, or through other companies under the local authority's control:

- the local authority can control the majority of votes at a general meeting
- the local authority can appoint or remove the majority of the board of directors
- the company is treated under company law as being a subsidiary of the local authority.

Where more than one local authority is involved in a company, their interests are looked at cumulatively.

##### Regulated local authority influenced companies (section 69)

A company is considered to be 'local authority influenced' if it has a 'business relationship' with the local authority and:

- at least 20% of its committee or board of directors are people associated with the local authority; or
- at least 20% of the voting rights at a board or committee meeting are people associated with the local authority; or



## SUMMARY OF RELEVANT LEGISLATION

- at least 20% of the voting rights of all members entitled to vote at a general meeting are people who are associated with the local authority.

A person is associated with the local authority if he or she:

- is, or has been, a local authority councillor within the past four years
- is currently an employee of the local authority
- is currently an employee or director of a local authority controlled company.

A company has a 'business relationship' with the local authority where there are financial transactions between the two, and includes organisations:

- which, within a period of 12 months, have more than half of their turnover associated with the local authority or a local authority controlled company; or
- where more than half of their turnover is derived from assets which originated from the local authority or a local authority controlled company; or
- where the total of grants for capital purposes made to the company and the value of shares held by the local authority and loans made exceeds one half of the company's assets; or
- which occupy land provided by the local authority and at less than the market rent; or
- the company intends to enter into a transaction and, when it does, there will be a business relationship.

Not all local authority influenced companies are regulated. A local authority influenced company is only regulated if it also meets the following additional conditions:

- it is an industrial and provident society; or
- is an unlimited company; or
- it is a company and the local authority would be treated as exercising a dominant influence over the company under company law or would have to prepare group accounts.

(Local Authorities Companies Order 1995 Statutory Instrument 849 regulation 1(4))

Dominant influence essentially means the local authority must be able to ensure that its wishes are complied with in relation to the operating and financial policies of the organisation, regardless of whether these wishes are for the benefit of the organisation and its users. It is the practical effect of the influence exerted by the local authority that matters and not how it is exercised.

**Special rules for companies involved with more than one local authority (section 73)**

Where more than one local authority participates in a company:

- the test of whether a business relationship exists requires looking at the total contributions made by the local authorities to the organisation's activities
- the proportion of membership or committee membership test is then satisfied if it is met by taking into account the total representation of all the authorities whose contributions are taken into account when meeting the business relationship test.

If those two tests are satisfied then an industrial and provident society is treated as being under the influence of any local authority that has a right to vote at its general meeting, or where there is a person associated with the authority who is a committee member. In the case of a company limited by guarantee, the company must also be under the dominant influence of a local authority.

**Unregulated companies**

The Local Government and Housing Act 1989 and the 1995 Companies Order do not affect any companies other than those described above.

The financial transactions of companies not affected by this legislation are therefore entirely separate from those of the local authority. Any borrowing for such companies is outside the capital controls on local authorities.

In particular the controls do not affect many companies which are local authority influenced, but which do not meet the additional requirements, eg the dominant influence test.

## SUMMARY OF RELEVANT LEGISLATION

These companies are often referred to as private sector influenced companies. Many joint venture companies are set up as private sector influenced companies, but the local authority must still have power to participate in such companies (see para. 10.4.1).

**10.5 SUPPLYING HEAT AND ELECTRICITY  
(LOCAL GOVERNMENT (MISCELLANEOUS  
PROVISIONS) ACT 1976 SECTION 11)**

This Act gives authorities powers to:

- produce heat or electricity, or both
- establish and operate such generating stations and other installations as the authority thinks fit for the purposes of producing heat or electricity, or both

- buy or otherwise acquire heat
- use, sell or otherwise dispose of heat produced or acquired or electricity produced by the authority
- enter into agreements for the supply by the authority to premises inside or outside their area of heat, steam, hot air and hot water.

**10.5.1 Providing training and employment opportunities (Local Government and Housing Act 1989 section 33). (See para. 10.5)**

The provisions of section 33 enable local authorities to help establish and participate in initiatives to create vocational training and employment opportunities that may include, or be targeted at, promoting energy efficiency.

## REFERENCES

1. **Department of the Environment, Transport and the Regions.** Good Practice Guide 82, 'Energy efficiency in housing – guidance for local authorities'. DETR, London, 1997
2. **Department of the Environment, Transport and the Regions.** Circular 2/96, 'Home Energy Conservation Act 1995'. DETR, London, 1996
3. **New Perspectives/BMRB International.** 'The Energy Efficiency Report 1996 – A review of home energy efficiency in Britain and of people's attitudes to improving it'. New Perspectives, Suffolk, 1996. Report available from New Perspectives (see Useful Contacts)
4. **Energy Saving Trust.** 1996/7 Review, 'Energy Efficiency Standards of Performance for England, Wales and Scotland'. EST, London, 1997
5. **Energy Saving Trust.** 'A new world for energy services?' Owen and King. EST, London, 1997
6. Maggie Davidson, Justine Redshaw and Alex Mooney. 'The role of DIY in maintaining owner-occupied stock'. BRE, The Policy Press, 1997
7. **Energy Saving Trust.** 'An ESCO in the Making? Learning lessons from the brief history of Energy Club Services Ltd'. EST, London, 1997
8. **Department of the Environment, Transport and the Regions.** General Information Report 51, 'Taking stock – financing energy efficiency in social housing'. DETR, London, 1998
9. **Department of the Environment, Transport and the Regions.** 'The Government's Standard Assessment Procedure for energy rating of dwellings. 1998 edition'. DETR, London, 1998



## APPENDIX 1 GLOSSARY OF TERMS AND ABBREVIATIONS

|                 |   |       |  |
|-----------------|---|-------|--|
| APR             | Annual percentage rate  | HMO   | Homes in multiple occupation   |
| BREDEM          | Building Research Establishment<br>Domestic Energy Model                                    | kWh   | Kilowatt Hour – the unit of electrical<br>energy usage or production that equates<br>to a thousand watts of electrical load<br>operating constantly for one hour |
| CFL             | Compact fluorescent lamp  | LETS  | Local Exchange Trading System  |
| CHP             | Combined heat and power system –<br>provides heat and electricity from a local<br>source    | NEA   | National Energy Action, formerly<br>Neighbourhood Energy Action  |
| CO <sub>2</sub> | Carbon dioxide – a greenhouse gas produced<br>when fossil fuels are burnt to produce energy | NES   | National Energy Services Limited   |
| DETR            | Department of the Environment,<br>Transport and the Regions                                 | NFFO  | Non-Fossil Fuel Obligation   |
| EEAC            | Energy Efficiency Advice Centres, formerly<br>Local Energy Advice Centre (LEAC)             | OFFER | Office of Electricity Regulation   |
| EESoP           | Energy Efficiency Standards of Performance  | OFGAS | Office of Gas Supply   |
| ESCO            | Energy services company   | PES   | Public electricity supplier, also known as<br>RECs (regional electricity companies in<br>England)  |
| EST             | Energy Saving Trust   | SAP   | Standard Assessment Procedure  |
| HECA            | Home Energy Conservation Act 1995   | SoP   | see EESoP  |
| HEES            | Home Energy Efficiency Scheme   | TEC   | Training and Enterprise Council  |
| HFL             | High-frequency lighting – energy-efficient<br>lights for commercial/industrial premises     | TRV   | Thermostatic radiator valve  |

## APPENDIX 2 USEFUL CONTACTS

**Association of British Credit Unions Ltd (ABCUL)**

Holyoake House, Hanover Street  
Manchester M60 0AS  
Tel: 0161 832 3694. Fax: 0161 832 3706

**Association of Independent Credit Unions**

Credit Unions House, 102 Tong Street  
Bradford BD4 6HD  
Tel/Fax: 01274 652042

**BRECSU**

BRE, Garston, Watford WD2 7JR  
Tel: 01923 664258. Fax: 01923 664787

**Chartered Institute of Housing**

Octavia House, Westwood Business Park  
Westwood Way, Coventry CV4 8JP  
Tel: 01203 851700. Fax: 01203 695110

**Combined Heat & Power Association (CHPA)**

Grosvenor Gardens House  
35/37 Grosvenor Gardens, London SW1W 0BS  
Tel: 0171 828 4077. Fax: 0171 828 0310

**Co-operative Bank plc**

PO Box 200, Delf House  
Skelmersdale, Lancashire WN8 6NY  
Tel: 01695 553179. Fax: 01695 558457

**Department of the Environment, Transport and the Regions (DETR)**

*Energy Services Team*  
Ashdown House, 7/D13  
123 Victoria Street, London SW1E 6DE  
Tel: 0171 890 6663. Fax: 0171 890 6679

***Environmental Action Programmes Team (for Environmental Action Fund)***

Ashdown House, 7/G8  
123 Victoria Street London SW1E 6DE  
Tel: 0171 890 7038. Fax: 0171 890 6689

**Local Government Capital Finance**

Eland House, Bressenden Place, London SW1E 5DU  
Tel: 0171 890 4229. Fax: 0171 890 4239/4259

**Energy Action Scotland**

Suite 4A, Ingram House, 227 Ingram Street  
Glasgow G1 1DA  
Tel: 0141 226 3064. Fax: 0141 221 2788

**Energy Saving Trust (EST)**

21 Dartmouth Street, London SW1H 9BP  
Tel: 0171 222 0101. Fax 0171 654 2444

**Energy Services Association (ESA)**

Grosvenor Gardens House  
35/37 Grosvenor Gardens, London SW1W 0BS  
Tel: 0171 828 4077. Fax: 0171 828 0310

**ETSU**

Harwell, Oxfordshire OX11 0RA  
Tel: 01235 436747. Fax: 01235 433066

**Letslink UK**

2 Kent Street, Portsmouth PO1 3BS  
Tel: 01705 730639.

**Local Government Association**

35 Great Smith Street, Westminster  
London SW1P 3BJ  
Tel: 0171 664 3000. Fax: 0171 664 3030

**Local Government Management Board**

Layden House, 76-86 Turnmill Street  
London EC1M 5QU  
Tel: 0171 296 6600. Fax: 0171 296 6666

**National Association of Credit Union Workers**

c/o BCUDA Ltd, Citygate House  
25 Moat Lane Birmingham B5 6BH.  
Tel: 0121 622 1062. Fax: 0121 622 7042

**National Energy Action (NEA)**

St Andrew's House, 90-92 Pilgrim Street  
Newcastle-upon-Tyne NE1 6SG  
Tel: 0191 261 5677. Fax: 0191 261 6496

**National Energy Services Ltd (NES)**

Rockingham Drive, Linford Wood  
Milton Keynes MK14 6EG  
Tel: 01908 672787. Fax: 01908 662296



## APPENDIX 2 USEFUL CONTACTS

**National Federation of Credit Unions**

Unit 1.1 and 1.2, Howard House  
Commercial Centre, Howard Street  
North Shields NE30 1AR  
Tel/Fax: 0191 257 2219

**National Lottery Charities Board**

St. Vincent House, 16 Suffolk Street  
London SW1Y 4NL  
Tel: 0171 747 5299. Fax: 0171 747 5347

**New Perspectives**

Bealings Barn, Great Bealings, Woodbridge  
Suffolk IP13 6PE  
Tel: 01473 735638. Fax: 01473 735638

**Office of Electricity Regulation (OFFER)**

11 Belgrave Road, London SW1V 1RB  
Tel: 0171 233 6366. Fax: 0171 233 6449

**Office of Gas Supply (OFGAS)**

Stockley House, 130 Wilton Road  
London SW1V 1LQ  
Tel: 0171 828 0898. Fax: 0171 932 1600

**Rebuilding Society Network**

115 Hamstead Road, Handsworth  
Birmingham B20 2BT.  
Tel: 0121 523 6886. Fax: 0121 554 7117

**Union Energy**

Congress House, Great Russell Street  
London WC1B 3LQ  
Tel: 0171 323 9221. Fax: 0171 323 9227

**Wise Group**

72 Charlotte Street, Glasgow G1 5DW  
Tel: 0141 303 3131. Fax: 0141 303 0070

**USEFUL WORLD WIDE WEB PAGES**

<http://www.bre.co.uk/brecsu/>  
BRECSU Energy Efficiency Best Practice programme  
– buildings-related projects

<http://www.energy-efficiency.org.uk>  
EST web site for the 'Energy Efficiency' campaign

<http://www.est.org.uk>  
EST home pages

<http://www.etsu.com/eebpp/home.html>  
ETSU Energy Efficiency Best Practice programme –  
industrial projects

<http://www.heca.co.uk>  
A site established by a group of local authorities to  
help councils implement HECA and provide a forum  
on environmental issues

<http://europa.eu.int/en/comm/dg11/dg11home.html>  
Web site of the Directorate-General 11  
(Environment) of the European Commission,  
includes details of funding sources

<http://europa.eu.int/en/comm/dg17/dg17home.htm>  
Web site of the Directorate-General 17 (Energy) of  
the European Commission

<http://www.cordis.lu>  
Community Research and Development Information  
Service (CORDIS) has over 2000 pages including  
calls for EU proposals, and details of funding  
opportunities

<http://nlcb.org.uk>  
Web site of the National Lottery Charities Board

**The Department of the Environment, Transport and the Regions' Energy Efficiency Best Practice programme** provides impartial, authoritative information on energy efficiency techniques and technologies in industry and buildings. This information is disseminated through publications, videos and software, together with seminars, workshops and other events. Publications within the Best Practice programme are shown opposite.

**For further information on:**

Buildings-related projects contact:  
Enquiries Bureau

**BRECSU**  
BRE

Industrial projects contact:  
Energy Efficiency Enquiries Bureau

**ETSU**  
Harwell, Oxfordshire

**Energy Consumption Guides:** compare energy use in specific processes, operations, plant and building types.

**Good Practice:** promotes proven energy efficient techniques through Guides and Case Studies.

**New Practice:** monitors first commercial applications of new energy efficiency measures.

**Future Practice:** reports on joint R&D ventures into new energy efficiency measures.

**General Information:** describes concepts and approaches yet to be established as good practice.

ARCHIVED DOCUMENT